

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the Resolutions, the contents of this document, or as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent professional adviser in the relevant jurisdiction.**

If you sell, have sold or otherwise transferred all of your LSR Shares you should send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and/or the Form of Proxy into certain jurisdictions other than the United Kingdom may be restricted by law. Therefore, persons into whose possession this document and any accompanying documents come should inform themselves about, and observe, any such restrictions. If you have sold or transferred only part of your holding of LSR Shares you should retain these documents and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

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## **THE LOCAL SHOPPING REIT PLC**

*(Incorporated and registered in England and Wales under the Companies Act 2006 with registered number 05304743)*

### **Notice of General Meeting**

**Resolutions proposed by Thalassa Holdings Ltd acting by its nominee Pershing Nominees Limited to remove Stephen East and Nicholas Vetch from the Board of the Local Shopping REIT plc and to appoint the Thalassa Nominees Duncan Soukup, John Hutchinson and Toby Burgess to the Board of the Local Shopping REIT plc in their place**

**Resolution to reduce the minimum number of Directors under Article 96 of the Company's articles of association**

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**Your attention is drawn to the letter from the Chairman of the Local Shopping REIT plc (“LSR” or the “Company”) on page 4 of this document which contains the unanimous recommendation of your Board that you vote against the Resolutions proposed by Thalassa Holdings Ltd acting by its nominee Pershing Nominees Limited at the General Meeting and the reasons for the Board to make such recommendation.**

Notice of the General Meeting to be held at 10.00 a.m. on Thursday 8 December 2016 at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS is set out at the end of this document. A Form of Proxy for use in connection with the General Meeting is enclosed with this document. Whether or not you intend to be present at the General Meeting, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing BN99 6DA, as soon as possible, and in any event, no later than 10.00 a.m. on Tuesday 6 December 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting). If you hold LSR Shares in CREST and you wish to appoint a proxy or proxies for the General Meeting or any adjournment(s) thereof by using the CREST electronic proxy appointment service, you may do so by using the CREST proxy voting service in accordance with the procedures set out in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to that CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. **Proxies submitted via CREST (under CREST ID RA19) must be sent as soon as possible and, in any event, so as to be received by the Company's registrars, Equiniti Limited, by no later than 10.00 a.m. on Tuesday 6 December 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).**

If you have any questions relating to this document, the General Meeting and/or the completion and return of the Form of Proxy, please telephone Equiniti Limited on 0371-384-2030 or for overseas calls +44 121-415-7047. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday (excluding public holidays in England and Wales). Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Requisition, nor can it give any financial, legal or tax advice.

The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

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## EXPECTED TIMETABLE OF EVENTS

<i>Event</i>	<i>Date</i>
Latest time and date for receipt of Form of Proxy from LSR shareholders	10.00 a.m. on 6 December 2016
Voting Record Time for the General Meeting	6.30 p.m. on 6 December 2016
Time, date and location of the General Meeting	10.00 a.m. on 8 December 2016 at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS

*All references to time in this document (including the Notice of the General Meeting) and the accompanying Form of Proxy are to London time.*

# LETTER FROM THE CHAIRMAN

## THE LOCAL SHOPPING REIT PLC

*(Incorporated and registered in England and Wales under the Companies Act 2006 with registered number 05304743)*

*Directors:*

Stephen East (*Non-executive Chairman*)  
 Nicholas Vetch (*Senior Independent Director*)  
 William A Heaney (*Non-executive Director*)

*Registered Office:*

The Local Shopping REIT plc  
 65 Grosvenor Street  
 London W1K 3JH

Dear LSR Shareholder

### 1. INTRODUCTION

On 27 October 2016, the Board announced that it had been informed by Thalassa Holdings Ltd (“Thalassa”), which through two different nominees holds 23.48% of the LSR Shares, that Thalassa was considering the requisition of a general meeting of the Company to remove the existing directors of the Company and to replace them with certain individuals identified by Thalassa. No formal requisition was served on the Company at this point.

On 10 November 2016, the Board announced that, after close of business on 9 November 2016, it had received a notice (the “Requisition Notice”) from Thalassa, requiring the Board to convene a general meeting of the Company’s shareholders to consider resolutions to remove the Company’s Non-executive Chairman, Stephen East and the Company’s Senior Independent Director, Nicholas Vetch, and to replace them with the three Thalassa Nominees, being Duncan Soukup, John Hutchinson and Toby Burgess (the “Requisition”). The full text of the Requisition Notice and the accompanying explanatory statement served by Thalassa on 9 November 2016 is included as a schedule to this document.

The Board is required to convene a general meeting within 21 days of the receipt of the Requisition Notice, with such meeting being required to be held on a date not more than 28 days after the date of the notice convening it, and accordingly this document contains the notice of the General Meeting, which is to be held at 10.00 a.m. on Thursday 8 December 2016 at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS, at which the Resolutions will be considered.

The purpose of this document is to explain the Board’s views on the Requisition in order that shareholders are properly informed and able to make their voting decision on that basis.

### 2. BACKGROUND REGARDING THE CURRENT POSITION OF THE COMPANY

Since the change of strategy approved by shareholders in July 2013, £95.7 million of property has been sold (55.4% by value of the July 2013 portfolio), the Group’s debt has been reduced by £92.2 million and the swap and fixed rate debt breakage liability, which was £19.2 million at 31 March 2013, has been eliminated. Capital gearing (net debt/total equity) has also reduced, from a peak of 384% during 2013 to 114% as at 31 March 2016. Since the cancellation of the Group’s interest rate hedging arrangements in January 2016, the Company now enjoys positive operating cashflow and, in view of the extension of its loan facilities, as described in section 5 below, the Board believes the Company has the latitude to complete what it has set out to achieve as stated in the investment policy approved by shareholders in July 2013.

The optimum route for selling the remainder of the Company’s properties as speedily and efficiently as possible consistent with the protection of value would have been via a sale of the Company’s property-holding subsidiaries; however, this has not been achievable on terms acceptable to the Board. The sale process has incurred considerable management time and professional fees, and, whilst it was in train, greatly restricted the Company’s ability to execute sales on a property by property basis.

The Board and Internos are now refocused on selling assets individually and, to that end, a programme of auction and private treaty sales is in hand. In the absence of the distracting process of a portfolio sale, the

Company has increased the pace of individual property sales and continuing this acceleration is a key priority for the Board. The Company sold 10 properties in October 2016 for a total consideration of £1.0 million, representing a 2.8% premium to their most recent valuation. Shareholders should, however, be aware that undertaking a disposal process with multiple individual sales will be a laborious and time-consuming process. The portfolio, comprising over 300 properties, contains many small assets, with 50% of the assets remaining being valued at £120,000 or less, and there is a limit on how many properties of the type owned by the Company the market can absorb at any one time without materially affecting price.

A detailed roadmap of how the Board intends to complete the task of turning property into cash will be set out in the results for the financial year ended 30 September 2016, which will be published in early December.

I continue to be grateful and extend my thanks to the excellent Internos staff working on the LSR account who, through their consistent efforts, have ensured stability at the Company. Thalassa's and Mr Soukup's intervention are inevitably unsettling and I hope, therefore, that this can be resolved as rapidly as possible.

Whilst I and my fellow directors have a clear view on what needs to be done, the Board does not claim a monopoly on the best way of prosecuting this endeavour. However, there is nothing in Thalassa's and Mr Soukup's proposal that in the Board's view assists with an expeditious implementation of the strategy approved by shareholders in July 2013.

In Thalassa's announcement of 12 September 2016, following the increase of its shareholding in the Company, it was stated that it was Thalassa's intention to review and change the Company's investment policy approved in July 2013. The Board notes that the statement supplied by Thalassa in relation to the Requisition makes no mention of this aim and gives no further detail as to how it proposes to amend the investment policy. The Board believes that this raises considerable uncertainty regarding Thalassa's intentions for the Company should it gain control of the Board.

Thalassa's statement appears to indicate that its ambitions are limited to cutting costs, reducing property vacancies, accelerating asset liquidations and reducing debt whilst failing to provide any detail on how to implement these points. Whilst highly desirable, they are all actions with which, as summarised above, your Board has already made considerable progress and on which it continues to work. For reasons set out in this document, the Board considers it unlikely that Thalassa can make any material improvements in these areas and, indeed, that Thalassa's proposals, if implemented, may well have a significant adverse impact.

The Board is, therefore, of the opinion that Thalassa's actions constitute, in effect, an attempt to gain control of the Company via the back door and, as such, should be rejected. It is, of course, open to Thalassa to make a formal offer for the Company, which in the Board's view is a more appropriate manner of seeking control of a listed company (if that is indeed Thalassa's aim). Should such a formal offer be forthcoming, the Board would, of course, consider it in light of the Directors' duties and their obligations under the City Code on Takeovers and Mergers, including obtaining competent independent financial advice on its terms, before expressing the Board's views on any such offer. However, in principle, this would coincide with the Board's desire to provide a cash exit for shareholders as quickly as possible.

### **3. REASONS FOR THE BOARD'S RECOMMENDATION TO VOTE AGAINST THE REQUISITION RESOLUTIONS AND IN FAVOUR OF THE DIRECTOR RESOLUTION**

The Board unanimously recommends that shareholders vote against the Requisition Resolutions and in favour of the Director Resolution for the reasons set out below.

Thalassa has made various statements regarding the performance of the Company which either refer to the period before the change of strategy approved by members in July 2013 (and were fully discussed by shareholders at that time) or are irrelevant or incorrect. The Directors therefore do not propose to comment further on those statements other than as set out in section 4 below.

#### **3.1 *Removal of Stephen East and Nicholas Vetch as directors of the Company and appointment of the Thalassa Nominees***

The overriding aim of the current Board is to execute the strategy approved by shareholders in 2013, being to dispose of the property portfolio and return the net proceeds to shareholders as speedily and

efficiently as possible, consistent with the protection of value. In this, the Board must act in the interests of the full body of the Company and its shareholders as a whole and their stewardship of the Company may not be influenced by any single interest. The Board finds it difficult to believe that their replacement by persons nominated solely by Thalassa can be in the interests of the wider body of shareholders.

The Board believes that the appointment of the Thalassa Nominees and the removal of the current directors would be highly detrimental to the interests of shareholders in general. The Board also considers that the proposed changes in Board membership would destabilise relationships with critical stakeholders and would be very disruptive of the programme that the Board has in hand for executing the strategy approved by shareholders.

In that respect, the Company's investment manager, Internos, has indicated that, whilst it would, as a matter of course, honour its contractual obligations, it would resign its investment management role in the event that Mr Soukup and his associates take control of the Board. In that event the Company would be exposed to additional costs in selecting and appointing a new investment manager and in the transfer of administration and management systems.

LSR Shareholders should note the provisions contained in the terms of the Loans in relation to the appointment of the Company's investment manager. These provisions, which replaced similar provisions in the original loan terms respecting the Company's property managers, were highlighted in the circular to shareholders of July 2013 and continue to apply to the Loans. Under these, the appointment by the Company of a new asset manager or investment advisor requires the prior written consent of HSBC Bank Plc. If such consent is not granted, then any such change would be an act of default under the terms of the Loans.

LSR Shareholders should note that William Heaney, who was appointed as a director of the Company on 10 November 2016, has informed the Company that he will resign from his position as a director of the Company in the event that the resolutions described above are passed by the Company.

### 3.2 ***Reduction of the minimum number of Directors required to two Directors pursuant to articles 96 and 116 of the Company's articles of association***

Article 116 of the Company's articles of associations allows the Company to reduce the minimum number of Directors required to be appointed at any given time pursuant to article 96 to a number lower than three.

In light of the Company's current strategy, the Directors believe that that appointment of a third director is not required and would not be cost-efficient on the basis that, given the Company's stated investment policy, two directors are capable of carrying out the necessary functions and exercising the appropriate level of oversight without incurring the costs of recruiting and retaining a third director. Accordingly, the Board is proposing resolution 6 in the attached Notice, which will have the effect of reducing the number of Directors required to two.

LSR Shareholders should note that William Heaney, who was appointed as a director of the Company on 10 November 2016, has informed the Company that he will resign from his position as a director of the Company in the event that this resolution is passed by the Company.

## **4. RESPONSE TO THALASSA'S STATEMENT**

### 4.1 ***The performance of the Company***

Since the change of strategy approved by shareholders in July 2013, £95.7 million of property has been sold (55.4% by value of the July 2013 portfolio), the Group's debt has been reduced by £92.2 million and the swap and fixed rate debt breakage liability, which was £19.2 million at 31 March 2013 has been eliminated. Capital gearing (net debt/total equity) has also reduced, from a peak of 384% during 2013 to 114% as at 31 March 2016. Since the cancellation of the Group's interest rate hedging arrangements in January 2016, the Company now enjoys reasonable and positive operating cashflow.

#### 4.2 *The cost base of the Company*

As the Directors explained to Mr Soukup in a meeting held on 21 September 2016, the nature of LSR's investment portfolio and tenant base means that, for its size, it is a complex and highly management intensive property business. As at this date, the Company has over 1,000 commercial and residential units in over 300 properties, giving rise to a constant stream of new lettings, lease renewals, rent reviews, repair and maintenance needs, rent arrear collections etc. The process of selling the properties is, of itself, time consuming and laborious, particularly where properties involve a multiplicity of occupational interests that are often subject to statutory notification and enfranchisement provisions.

Eight members of Internos staff are engaged on LSR's account with involvement of the wider Internos team as needs arise. Importantly, the majority of the team working on the Company's behalf were previously employed by LSR and have therefore provided considerable continuity and a deep knowledge of the assets.

The Board has made a concerted effort to bear down on recurring administration costs which are anticipated to have dropped by 49% from £2.9 million in the financial year ended 30 September 2012 (i.e. the year immediately prior to the change of strategy) to an anticipated £1.5 million for the financial year ended 30 September 2016. As with all listed companies, there is an element of fixed overhead cost, but the Board endeavours to make further savings wherever possible.

#### 4.3 *The appointment of Internos*

Internos was appointed in 2013 following a transparent and open process conducted in two stages, with the assistance of the Company's corporate broker JP Morgan Cazenove. The appointment was made on the key criterion of competency with regard to the Company's property, banking and corporate needs and a financially acceptable proposal. In addition, and equally importantly, Internos satisfied the Board as to its ability to assimilate the staff of the Company to ensure operational continuity, including taking on certain mandatory TUPE liabilities arising in connection with the transfer of staff. It was an important further consideration that Internos was (and continues to be) regulated by the Financial Conduct Authority. Critically, Internos was acceptable both to HSBC Bank plc, lender to two of the Company's subsidiaries, and to Capita, managers for the securitised debt of the two other subsidiaries, both of whose consent was required under the various lending agreements.

#### 4.4 *Internos fee structure*

The agreement negotiated with Internos in 2013 was structured with a view to simultaneously incentivising Internos to manage the portfolio and the Company efficiently, whilst selling assets as expeditiously as possible for the best prices achievable. Accordingly, the agreement provided for an Asset Management Fee of 0.7% of the gross value of the Company's assets, together with an Annual Performance Fee, fees for the sale of properties and a Terminal Fee dependent on the achievement of a hurdle which was set at 36.1 pence per share in 2013 and escalates by 8% per annum. The current hurdle of 45.5 pence per share is 62% above the Company's share price at close of trading on 21 November 2016 (being the latest practicable date prior to the publication of this document) and 6% above the Company's Net Asset Value as at 31 March 2016. The Asset Management Fee was subject to a minimum floor which reduces over the first four years, thus reflecting the considerable upfront cost incurred by Internos in meeting the applicable TUPE obligations and the not inconsiderable endeavour and cost of migrating the Company's management and accounting systems. The minimum fee floor will cease to apply in July 2017, in accordance with the terms of the 2013 agreement, and, as the Asset Management Fee will inevitably reduce in line with the disposal of the portfolio, the fees derived by Internos will become increasingly reliant on its performance in selling the properties. The Board is, therefore, entirely satisfied that the quantum and structure of the fees currently payable to Internos are in the best interests of shareholders.

The Board notes that Thalassa's statement suggests that it will cut the Company's cost structure, but provides no detail on how it would do so. The Board firmly believes that Mr Soukup and his associates would not be able to materially improve on costs without degrading the performance of the

Company's properties and impairing its ability to sell the several hundred of properties that need to be sold, many of which are widely geographically dispersed. Any degradation in the operational performance is likely to result in an increase in the void rate across the portfolio, which will be reflected in a diminution in capital value.

Given that the fee arrangements with Internos were designed to reflect a shorter property disposal period than has proved possible, these may need to be revisited at some point in the future. Any material amendments to the fee arrangements that may be necessary will, of course, be the subject of separate consultation with shareholders before these are implemented, in accordance with the Company's obligations under the Listing Rules.

#### **4.5 *The credentials of Mr Duncan Soukup***

Mr Soukup has set out his credentials in the Thalassa statement. On 30 October 2013 Thalassa announced that it had raised £18.1m by way of an equity issue at £2.50 per share. It should be noted that at the close of markets on 21 November 2016 Thalassa's share price was 43p, a reduction of 83% on the equity issue price for the October 2013 placing. The Board will not comment further on Mr Soukup's credentials, but shareholders will no doubt wish to carry out their own research.

### **5. EXTENSION OF BORROWING FACILITIES**

Earlier today, the Company announced that it has extended the term of the two cross-collateralised loan facilities provided to the Company's property-holding subsidiaries NOS 4 Limited and NOS 6 Limited by HSBC Bank plc (initially in April 2006 and September 2008, and subsequently restructured in July 2013 and in April 2015) (the "**Loans**") by an additional 20 months. The Company has thereby secured bank funding through to 31 December 2019.

The amendment of the Loans will also allow the Company to extend the timeline initially envisaged for the implementation of its current investment strategy, which had been approved in July 2013. This will permit the Board to continue with the sale of the Company's property portfolio in an orderly manner, and in a way which maximises shareholder value. As part of the revised terms the balance of the Loans will be reduced by £7 million on 30 November 2016 through the release of cash held by the Company (derived from the sale of properties and operational income). As a result, the balance of the Loans outstanding on 30 November 2016 will be approximately £43.5 million.

Under the terms of the extension of the facilities, further property assets valued at £1 million will be added to the existing security pool. The interest margin will be 2% above 3 month LIBOR and an arrangement fee of 0.5% has been paid on the outstanding balance of the Loans. The loan to value ratio default covenant is 70%, the cash sweep covenant is 65% and the income cover ratio covenant is 120%.

Capital repayments of the Loans will be made at the rate of 1% per quarter for the next 24 months, falling to 0.25% per quarter thereafter until the balance of the Loans falls below £36m. Under the terms of the extension of the facilities, the proceeds of sales of properties within the security pool (net of sales costs) are to be applied to reducing the balance of the Loans. No other material changes have been made to the loan agreements.

As at the date of this Circular the loan to value ratio in respect of assets charged under the Loans is 61.0%. This will be further reduced to 60.2% following the contribution of the additional assets. The Company's net debt to value ratio on all its property assets is 52.4%. The Company has no debt finance liabilities other than the Loans and will continue to hold a cash reserve (expected to be approximately £4.1 million at 30 November 2016) to cover its working capital requirements.

The extension of the Company's borrowing facilities until 31 December 2019 has placed the Company in a stronger and more secure position, enabling the Board to continue with confidence the execution of the investment strategy approved by shareholders.



## 6. RECOMMENDATION

For the reasons set out above, the Board considers that the Requisition Resolutions:

- to remove Stephen East, the Company's Non-executive Chairman and Nicholas Vetch, the Company's Senior Independent Director; and
- to replace them with the three Thalassa Nominees, being Duncan Soukup, John Hutchinson and Toby Burgess;

are, in each case, not in the best interests of the Company or LSR Shareholders, as a whole.

The Board also considers that the Director Resolution to reduce the minimum Board size of the Company required by article 96 of the Company's articles of association to two as permitted by article 116 of Company's articles of association is in the best interests of the Company and its shareholders, as a whole, on the basis that two directors are capable of carrying out the necessary functions under the stated investment policy without incurring the costs of recruiting and retaining an additional director over the longer term.

**The Board therefore unanimously recommends that all LSR Shareholders vote**

- **AGAINST the Requisition Resolutions which are set out as resolutions 1 to 5 in the Form of Proxy and that all LSR Shareholders vote**
- **FOR the Director Resolution which is set out as resolution 6 in the Form of Proxy,**

**as all the Directors intend to do in respect of their aggregate beneficial holdings of 3,006,745 LSR Shares (representing approximately 3.64% of the issued share capital of the Company).**

## 7. ACTION TO BE TAKEN

You will find, set out at the end of this document, a Notice convening the General Meeting, to be held at 10.00 a.m. on Thursday 8 December 2016 at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS at which the Resolutions will be considered. The full text of the Resolutions is set out in the attached Notice. Voting at the General Meeting will be by poll and not on a show of hands and each LSR Shareholder entitled to attend and who is present in person or by proxy will be entitled to one vote for each LSR Share held.

You will find enclosed with this document a Form of Proxy for use at the General Meeting or any adjournment thereof. Whether or not you intend to be present at the General Meeting, you are requested to complete and sign the Form of Proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing BN99 6DA as soon as possible, and in any event, no later than 10.00 a.m. on Tuesday 6 December 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).

If you hold LSR Shares in CREST and you wish to appoint a proxy or proxies for the General Meeting or any adjournment(s) thereof by using the CREST electronic proxy appointment service, you may do so by using the CREST proxy voting service in accordance with the procedures set out in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to that CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Proxies submitted via CREST (under CREST ID RA19) must be sent as soon as possible and, in any event, so as to be received by the Company's registrars, Equiniti Limited, by no later than 10.00 a.m. on Tuesday 6 December 2016 (or, in the case of an adjournment, not later than 48 hours (excluding non-working days) before the time fixed for the holding of the adjourned meeting).

Shareholders wishing to complete their paper Form of Proxy in line with the Board's recommendations should place an "X" in the boxes under the heading "Against" alongside resolutions 1 to 5, and an "X" under the heading "For" alongside resolution 6.

If you have any questions relating to this document, the General Meeting and/or the completion and return of the Form of Proxy, please telephone Equiniti Limited on 0371-384-2030. If you are outside the United Kingdom, please call +44 121 415 7047. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 8.30 a.m. and 5.30 p.m., Monday to Friday (excluding public holidays in England and Wales). Please note that Equiniti Limited cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

Yours faithfully,

**Stephen East**

*Chairman*

## DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

<b>“Board”</b>	the current board of directors of the Company
<b>“Company” or “LSR”</b>	the Local Shopping REIT plc, registered in England and Wales with registered number 05304743
<b>“CREST”</b>	the relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in the Regulations)
<b>“CREST Manual”</b>	the CREST manual consisting of the CREST reference manual; CREST international manual; CREST central counterparty service manual; CREST rules; CCSS operations manual and CREST glossary of terms available at <a href="http://www.euroclear.com">http://www.euroclear.com</a>
<b>“CREST Proxy Instruction”</b>	a properly authenticated CREST message appointing and instructing a proxy to attend and vote in place of a shareholder at the General Meeting and containing the information required to be contained in the CREST Manual
<b>“Director Resolution”</b>	the ordinary resolution to be proposed at the General Meeting other than the Requisition Resolutions (and set out in the Notice contained in this document) to reduce the minimum Board size of the Company required by article 96 of the Company’s articles of association to two Directors as permitted by article 116 of Company’s articles of association
<b>“Directors”</b>	the directors of the Company being Stephen East, Nicholas Vetch and William Heaney
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited
<b>“Form of Proxy”</b>	the Form of Proxy enclosed with this document, for use by shareholders in connection with the General Meeting
<b>“General Meeting”</b>	the general meeting of the Company to be held at 10.00 a.m. on Thursday 8 December 2016 (and any adjournment thereof) for the purposes of considering and, if thought fit, passing the Resolutions
<b>“Group”</b>	the Company and its Subsidiaries
<b>“Internos”</b>	INTERNOS Global Investors Limited, the investment manager of the Company appointed on 22 July 2013
<b>“Loans”</b>	the loan agreements between HSBC Bank plc and NOS 4 Limited and NOS 6 Limited as described in section 5 of this document
<b>“LSR Shares”</b>	the ordinary shares of 20 pence each in the capital of the Company, having the rights set out in the Company’s Articles of Association
<b>“LSR Shareholders”</b>	the holders of LSR Shares from time to time
<b>“Notice”</b>	the notice of the General Meeting accompanying this document
<b>“Regulations”</b>	the Uncertificated Securities Regulations 2001 of the United Kingdom
<b>“Requisition”</b>	has the meaning given thereto on page 4 of this document

<b>“Requisition Resolutions”</b>	each of the ordinary resolutions to be proposed at the General Meeting pursuant to the Requisition (and set out in the Notice contained in this document):
	<ul style="list-style-type: none"> <li>• to remove the Company’s Non-executive Chairman, Stephen East, and its Senior Independent Director, Nicholas Vetch; and</li> <li>• to replace them with the three Thalassa Nominees, being Duncan Soukup, John Hutchinson and Toby Burgess</li> </ul>
<b>“Resolutions”</b>	the Director Resolution and the Requisition Resolutions
<b>“Subsidiary”</b>	has the meaning given thereto in section 1159 of the Companies Act 2006
<b>“Thalassa”</b>	Thalassa Holdings Ltd acting by its nominee Pershing Nominees Limited
<b>“Thalassa Nominees”</b>	Duncan Soukup, John Hutchinson and Toby Burgess
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“pence”, “pounds sterling”, “sterling”, “£” or “p”</b>	the lawful currency of the United Kingdom

*All times referred to are London time unless otherwise stated.*

*All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.*

*Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.*

## SCHEDULE

### REQUISITION NOTICE AND EXPLANATORY STATEMENT PROVIDED BY THALASSA

The Directors  
The Local Shopping REIT plc  
65 Grosvenor Street  
London W1K 3JH

Pershing  
Registered office:  
The Royal Liver Building  
Pier Head Liverpool L3 1LL  
pershing.com/europe

8 November 2016

Dear Sirs

#### THE LOCAL SHOPPING REIT PLC (THE “COMPANY”)

#### REQUISITION OF MEMBERS PURSUANT TO SECTION 303 OF THE COMPANIES ACT 2006 (THE “ACT”) AND REQUIREMENT TO CIRCULATE A STATEMENT TO MEMBERS PURSUANT TO SECTION 314 OF THE ACT

We, the undersigned, being a member of the Company holding at the date of the deposit of this requisition not less than 5% of such of the paid up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares) (the “**Requisitioning Member**”), require you, pursuant to section 303 of the Act, immediately to proceed to convene a general meeting of the Company (the “**General Meeting**”) for the purpose of considering the appointment and removal of directors of the Company and accordingly (if thought fit) passing the following resolutions:

1. **THAT** Stephen East be and is hereby removed from the office of director of the Company with immediate effect.
2. **THAT** Nicholas Vetch be and is hereby removed from the office of director of the Company with immediate effect.
3. **THAT** Duncan Soukup, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.
4. **THAT** John Hutchinson, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.
5. **THAT** Toby Burgess, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.

We the Requisitioning Member, also require you, pursuant to section 314 of the Act, to circulate the following statement with the notice of General Meeting:

<i>Name</i>	<i>Shareholding</i>	<i>Signature</i>
Pershing Nominees Limited acting as nominee for Thalassa Holdings Ltd	23.14%	

Pershing Limited: Authorised and regulated by the Financial Conduct Authority, No. 124415, registered in England and Wales under No. 2072264. Pershing Securities Limited: Authorised and regulated by the Financial Conduct Authority, No. 146576, registered in England and Wales under No. 2474912.

## THALASSA STATEMENT

Dear Shareholder,

Thalassa Holdings Ltd (**Thalassa**) (through two different nominees) recently acquired 23.48% of The Local Shopping REIT plc (**LSR**). We have a successful track record of unlocking value in underperforming assets and believe that with owner management, shareholder value could be realised more efficiently and faster than by third-party managers with no vested interest.

LSR have offered Thalassa one Board seat with conditions attached, which we have declined and requisitioned a general meeting to remove the current Board and replace it with the following nominees:

### **Mr Duncan Soukup, aged 62**

Mr Soukup has over 30 years of investment experience. After 10 years in investment banking, he set up an investment management business in 1994. In January 2000 Acquisitor plc, a company founded by Mr Soukup, was admitted to AIM. In 2002, Acquisitor was split into two: Acquisitor Holdings Ltd and Acquisitor was left as an investing company, which then acquired Tinopolis plc, an independent TV production company. In 2006, Acquisitor Holdings merged with New York Holdings Ltd and Baltimore plc, which was acquired by Oryx International Limited. Mr Soukup is the Founding Shareholder and Chairman of Thalassa.

### **Mr John Hutchinson, aged 54**

Mr Hutchinson has been the Managing Partner of Pitmans since 2015. Previously, he was Head of Corporate at Pitmans from 2000 to 2007 working on MBO's, MBI's, M&A and AIM IPO's and building the team to 6 partners and 15 staff. From 2007 he retained his partnership at Pitmans but was mainly engaged as a partner in Epi-V LLP, a private equity fund specialising in oil and gas technology investment.

### **Mr Toby Burgess, aged 42**

Mr. Burgess is a successful independent private investor, developer and property consultant with over 20 years experience in real estate. He started his career at Bride Hall Developments as an acquisition surveyor. After forming his own company in 2004 he built a substantial portfolio and liquidated ahead of the global financial crisis in 2007/08.

### **Why we seek to replace the current Board**

- LSR's cost structure must be cut to reflect a company undertaking asset liquidation.
- LSR's performance since admission has been disastrous and the Board must take substantial responsibility.
- The management agreement between LSR and INTERNOS Global Investors Limited (**Internos**) (**Internos Agreement**) appears inequitable and not in shareholders' best interests:
  - since its appointment on 22 July 2013, Internos has been paid a total of £3.187m. Total administrative and property costs during this time of £18.5m while the return to shareholders has been £zero;
  - the Internos Agreement is excessive in comparison to LSR's revenue and profit and is not performance related (in 2015 Internos' fee was £1,016,461, while profit before tax a paltry £20,000);
  - on 7 August 2014 LSR announced the sale of 235 properties for £79.3m. Under the Internos Agreement, Internos was due a 0.5% fee on sales in excess of £50m (even though the property portfolio was worth £173.9m prior to Internos' appointment) and, by our calculations, have been paid £396,500 (£79.3m x 0.5%) notwithstanding the fact that LSR has incurred cumulative losses in excess of £92m; and

- the Internos Agreement is on significantly worse terms than those entered into by Internos with other clients, such as Invista European Real Estate Trust (Invista). Invista paid a management fee of 1.25% on net assets whereas LSR are paying 0.7% on gross assets, subject to a minimum of £1m in years 1 and 2 and £950,000 in year 3. We estimate that this equates to more than twice what Internos would earn if the Invista formula were applied to LSR.
- We are told that the Internos Agreement is not only in the best interests of shareholders but that it was entered into following a full and transparent process. In fact the appointment was made with no shareholder consultation – Steve Faber was appointed to the board before shareholders were informed about the Internos Agreement. The 2013 circular states Internos’ appointment was not conditional on shareholder approval of the New Investment Policy – we conclude that Internos’ appointment was clearly not something the Board wanted shareholders to vote on.
- Why does the Internos Agreement include bonus terms for their core function – which is selling assets – without consideration to profit or loss and includes a terminal fee of 5.7% cash returned to shareholders in excess of 36.1p which was below NAV per share of 46p when they were appointed and is below current NAV per share of 43p.
- Since admission, LSR has incurred cumulative losses totalling £92.023m, including total administrative and property operating expenses of £49.931m. By our calculations, the NAV per share was 164.86p at admission and has fallen 74% to 43p. Based upon the share price of 28.25p on 7 September 2016 (the day before Thalassa’s first purchase) LSR’s share price has declined 72.6% in that period, even when taking into account net dividends paid between 2008 and 2012 of 19.42p.

#### **What would Thalassa do?**

If elected, Thalassa would:

- review all contractual arrangements with a view to cutting costs, eliminating duplication, reducing property vacancies, whilst accelerating asset liquidation and substantially reducing debt;
- meet shareholders to discuss representation on the Board, which the current Board has informed us they have in the past (in the case of Damille Investments Ltd, who requested two seats) rejected; and
- improve corporate governance – the current Board is in breach of the LSR’s articles of association which requires a minimum of three directors. It has therefore been operating in contravention of the Company’s Act 2006 since April 2016. This on-going failure is worrisome and indicative of potential wider disregard of proper corporate governance by the current Board. We will be considering operations during this period and will seek redress on behalf of LSR, as appropriate.

We are acutely conscious of the sensitivity of key relationships with other stakeholders in LSR and, as the company’s largest shareholder, we have no interest in destabilising any of them.

Sincerely

**Duncan Soukup**  
*Chairman*  
**Thalassa Holdings Ltd**

## THE LOCAL SHOPPING REIT PLC

*(Incorporated and registered in England and Wales under the Companies Act 2006 with registered number 05304743)*

### NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a general meeting of the shareholders of the Local Shopping REIT plc (the “Company”) (the “General Meeting”) will be held at 10.00 a.m. on Thursday 8 December 2016 at the offices of Eversheds LLP, One Wood Steet, London EC2V 7WS, for the purpose of considering and, if thought fit, passing the following resolutions, each of which shall be proposed as ordinary resolutions:

### ORDINARY RESOLUTIONS

THAT

1. Stephen East be and is hereby removed from the office of director of the Company with immediate effect.
2. Nicholas Vetch be and is hereby removed from the office of director of the Company with immediate effect.
3. Duncan Soukup, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.
4. John Hutchinson, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.
5. Toby Burgess, having indicated his willingness to act, be and is hereby appointed a director of the Company with immediate effect.
6. the minimum Board size of the Company required by article 96 of the Company’s articles of association be and is hereby reduced to two Directors as permitted by article 116 of Company’s articles of association.

Dated: 22 November 2016

*Registered office:*

The Local Shopping REIT plc  
65 Grosvenor Street  
London  
W1K 3JH

*By order of the Board*

**William A Heaney**  
*Director and Company Secretary*

**Notes:**

1. As permitted by section 360B(3) of the Companies Act 2006 (“the Act”) and Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders must be entered on the Company’s share register at 6.30 p.m. on 6 December 2016 in order to be entitled to attend and vote at the Meeting (or, if the Meeting is adjourned on the Company’s share register at 6.30 p.m. on the day two business days before the time fixed for the adjourned Meeting). Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
2. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so. A form to be used for appointing a proxy or proxies for this meeting to vote on your behalf accompanies this Notice.



3. A body corporate which is a member of the Company may appoint one or more corporate representatives to exercise all the powers of a shareholder on its behalf, provided that representatives of the same corporation do not exercise their powers differently in relation to the same shares.
4. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, BN99 6DA, not less than 48 hours before the time of the Meeting or of any adjournment of the Meeting.
5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual on the Euroclear website ([www.euroclear.com](http://www.euroclear.com)). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must (in order to be valid) be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
6. Persons with information rights under section 146 of the Act do not have the right to appoint a proxy. Any purported exercise by such persons (whether by completion and return of a form of proxy, or otherwise) will be ineffective. Such persons may, however, have specific rights to instruct the member who granted the information rights as to how such member exercises their right to appoint a proxy.
7. Any member attending the Meeting is entitled, pursuant to section 319A of the Act, to ask any question relating to the business being dealt with at the Meeting. The Company will answer any such questions unless: (i) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; or (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
8. The total number of Ordinary Shares in issue as at 21 November 2016, the last practicable date before printing this document, was 91,669,870 Ordinary Shares and the total level of voting rights was 91,669,870, of which 9,164,017 were attached to shares held in treasury by the Company.
9. Copies of the service contracts and letters of appointment of each of the directors are available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) and at the place of the Meeting from at least 15 minutes prior to and until the conclusion of the Meeting.
10. A copy of this Notice together with other information required under the Act may be accessed on the Company's website [www.localshoppingreit.co.uk](http://www.localshoppingreit.co.uk). Any shareholders' statements, shareholders' resolutions and shareholders' matters of business received by the Company after the date of the Notice will be added to the information already available on the website as soon as reasonably practicable.
11. The results of the voting at the Meeting will be announced through the London Stock Exchange regulatory news service and will also appear on the Company's website.
12. You may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.





