the Local Shopping REIT plc

Annual Report

for the year ended 30 September 2018

Stock Code: LSR

the Local Shopping REIT plc

What we do

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust ("REIT")

The Company's investment policy is to undertake a progressive disposal of its assets, to enable the repayment of bank facilities and the return of surplus value to its shareholders, whilst maximising returns from the residual property portfolio through sound asset management.

What is a REIT?

Real Estate Investment Trusts are listed property investment companies or groups not liable to corporation tax on their rental income or capital gains from their qualifying activities.

Local Shopping REIT plc online

See further information online: www.localshoppingreit.co.uk

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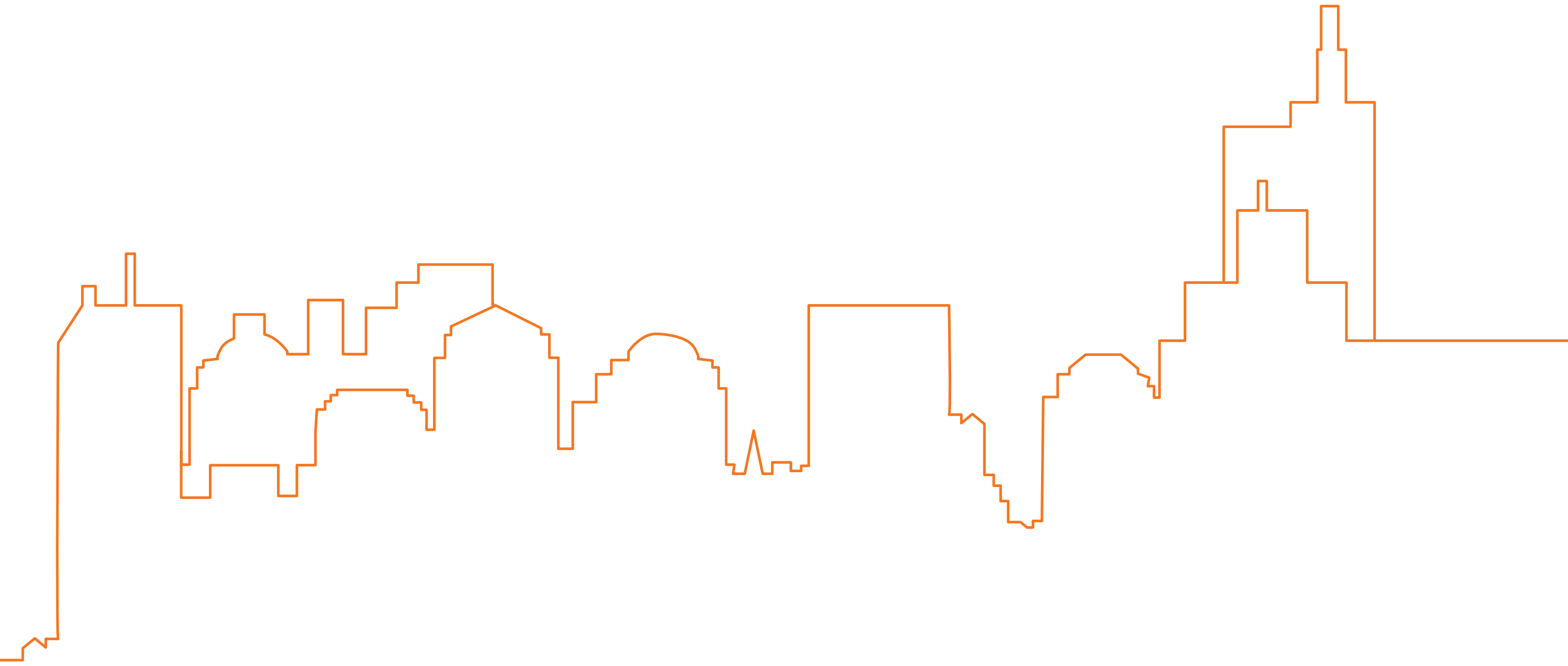

Chairman's Statement

The Strategic Report of the directors comprises:

- the Chairman's Statement, set out below;
- the Operating Review, on page 3;
- the Finance Review, on pages 4; and
- the Corporate Responsibility Statement, on page 5.

Financial Performance

The Company made a loss for the year of £7.15 million (2017 loss £0.86m) on an IFRS basis.

Our portfolio was valued at 30 September 2018 at £22.3m (2017: £55.46m).

A major achievement during the year was the elimination of the Company's bank debt as a result of the cash generated by the Company's programme of property sales. The Company's bank loans were repaid in full in July 2018 and at the year-end the Company had £3.29m of cash. This sum had increased to £18.95m as at the date of this report.

Property Disposal Programme

During the year the Company continued the accelerated programme of property disposals, completing or exchanging contracts for the sale of 107 properties which generated £28.2m in gross sales proceeds. This represented a 2.1% discount to valuation prior to sale. From the shareholders' decision to initiate the disposal programme to the date of this report, we have completed or exchanged for sale on 622 properties (97% by number of the properties held in July 2013), for an aggregate gross consideration of £159.8m.

During the financial year we have seen a decline in the sale values of properties of the type held in our portfolio, as a result of the prevailing uncertain economic conditions. This impacted the sales prices achieved during and after the financial year, as well as the revaluation of the remaining portfolio.

At the date of this report, the Company holds 34 property assets, valued at £9.3m. Of these:

- 16 are under contract for sale, at an aggregate price of £4.4m;
- 7 are under offer for sale, at an aggregate price of £1.0m;
- 11 are currently being marketed, the aggregate book value of which (at 30 September 2018) is £3.9m.

The properties under contract for sale include eight assets sold at auction earlier in December. The aggregate gross price achieved for these properties was £2.6 million, representing a combined discount to 30 September 2018 valuation of 6.2%.

Net Realisable Value

In the announcement published on 11 October 2018, we provided a range for the Company's net realisable value of between 33.0 and 34.5 pence per share. As a result of auction sales performance and market trends since then we anticipate that the distribution is likely to be at the lower end of that range. The final amount will be determined by the sales of the residual property assets and the outcome of the general meeting referred to below.

Members' Voluntary Liquidation

On 16 November 2018 the Board issued a circular to shareholders and notice of a general meeting of the Company to take place on 12 December 2018, for the purpose of approving a resolution for a solvent winding-up the Company (the "Members' Voluntary Liquidation"). The Board believes that this is the most effective means of returning cash to shareholders in line with the Company's investment policy. The circular and details of the meeting are available on the Company's website www.localshoppingreit.com. For the reasons set out in the circular, the Board encourages all shareholders to attend the meeting and to vote in favour of the Members' Voluntary Liquidation.

Stephen East
Chairman
9 December 2018

Operating Review

Business Model

During the year our operating model continued to focus on maximising returns from our property portfolio whilst disposing of assets and repaying bank debt. Following the full repayment of our bank debt in July 2018, the net proceeds of property sales have been retained in the Company's cash reserve. Core to the achievement of good returns on our properties, and thus the maximisation of disposal values, is letting space to reliable tenants at affordable rents and the minimisation of tenancy voids and their associated costs.

Business Review 2017–18

Market Context

In common with other property investment entities, our activities were affected by a number of negative factors affecting the property market during the year, including the uncertainty over the outcome of the Brexit process. Although the activities of many of our occupiers are based on non-discretionary spending, the business could not fully escape the economic uncertainty within the retail sector, which inevitably had some impact in terms of occupational levels, rent arrears, lease renewals and terms for new lettings.

However, the principal effect of this period of political and market uncertainty related to our investment property values and the prices achieved for property assets we brought to market during the year. Thus, on a like-with-like basis, the value of our portfolio fell by 6.2% during the six months period to 31 March 2018, and a further 13.9% for the six months to 30 September 2018.

Operating Results & Portfolio Performance

The Group made an IFRS loss before tax for the year to 30 September 2018 of £7.15m (or -8.7 EPS), compared with a loss of £0.86m (-1.0 EPS) for the year to 30 September 2017. The loss for the Group primarily reflects the revaluation of the remaining portfolio and, to a lesser extent, the loss on disposal of properties after incorporating transaction costs. A further factor has been the change in the basis of preparation of the Group's accounts for 30 September 2018 from a Going Concern basis to a liquidation basis.

This change has required a number of additional provisions, including anticipated expenditure and estimated sales costs for the remaining property portfolio and the write down of non-cash assets such as the capitalised value of rent-free periods, together with the costs of the proposed Members' Voluntary Liquidation.

The portfolio achieved gross rental income for the year of £3.38m (2017: £6.02m). This reduction principally reflected the sale of property assets during the year.

At 30 September 2018 the portfolio comprised 75 properties, producing an annual gross rental income, after deducting head rent payments, of £2.31 million (30 September 2017: 182 properties; annual rental income £5.00m). The portfolio included 290 letting units (30 September 2017: 742 letting units).

Further details of operating performance are given in the Finance Review.

Property Sales

During the year sales were completed on a further 107 properties at a combined gross sale price of £28.2m, which was 2.1% under the aggregate of the valuations at the time the properties went under offer. Transaction costs for the sales were 2.9% of the prices achieved. As a result, the net loss on sales after transaction costs was 4.9%.

Since the year end, a further 30 transactions have exchanged or completed at an aggregate sale price of £17.7m.

At the date of this report we have sold 97% by number of the property portfolio as it stood when shareholders approved the revised investment strategy in July 2013. This has involved the sale of 622 properties representing £159.8m in aggregate gross consideration, via over 330 separate transactions.

Revaluation

The loss before tax reflected the movement in fair value of all the properties held at 30 September 2018, which was £22.3m (30 September 2017: £55.46m). For properties held at the year-end for which sale contracts had already been exchanged or transactions completed after the year-end, the value was determined as the sale price achieved less sales costs. The remainder of the property portfolio was revalued as at 30 September 2018 by Allsop LLP, a firm of independent chartered surveyors, at £7.8m.

On a like-for-like basis (excluding the value of properties disposed of during the year), the properties valued by Allsop LLP reduced in value by 20.4%, from £9.8m to £7.8m.

The investment property portfolio valuation as at 30 September 2018 reflected an equivalent yield (excluding the residential element) of 12.5% (30 September 2017, like-for-like: 9.47%).

Investment Property Portfolio as at 30 September 2018

Value	£7.8m
Initial Yield ("IY")	10.4%
Reversionary Yield ("RY")	13.3%
Equivalent Yield ("EY")	12.5%
Rent per annum*	£0.8m
Market Rent per annum*	£1.1m

*Net of head rents payable.

All yields quoted exclude the residential element which is valued at a discount to vacant possession value.

Strategic Report

Finance Review

The financial statements contained in this report have been prepared in accordance with International Reporting Standards ("IFRS"). No new accounting policies were adopted during the year. Following the year end the directors considered whether, in view of the progress with the Company's property sales programme, it remained appropriate for the Company's financial statements to continue to be prepared on a Going Concern basis. Having noted the likelihood that the property sales programme would be completed during the first half of the 2018-19 financial year, the Company's investment policy of returning cash to shareholders and the advice of the Company's auditors, the Board concluded that the financial statements for 30 September 2018 should not be prepared on the Going Concern basis.

Result

The Group recorded an IFRS loss for the financial year of £7.15m, or 8.7 pps (2017: loss £0.86m, or 1.0 pps).

Key Performance Indicators

In addition to the property specific indicators described in the Operating Review, the following financial key performance indicators were monitored by the directors during the year:

	30 September 2018	30 September 2017
Group interest cover*	**N/A**	505%
Group Loan to value (LTV) ratio*	**N/A**	36.5%
NAV per share	**33.6p**	42.2p
Gearing (net of cash held)*	**N/A**	58%

* The Group's bank debt was fully repaid on 28 July 2018.

Property Operating Expenses

Property operating expenses were £2.45m (2017: £1.97m). This included the costs incurred in preparing properties for sale.

Further details of property operating expenses are contained in Note 2 to the financial statements.

Administrative Expenses

Administrative expenses were £1.52m during the period (2017: £1.74m). Further detail of administration expenses is contained in Note 4 to the financial statements.

Net Asset Value ("NAV")

During the period NAV fell to £27.73m or 33.6p per share, based on 82.5m shares in issue, excluding those held in Treasury (30 September 2017: £34.79m, 42.2p per share).

As at 30 September 2018 the Group held £3.29m of cash (30 September 2017: £10.5m). The Group's bank debt was paid down during July 2018, so that at 30 September 2018 the Group had no banking debt (30 September 2017: debt of £30.9m).

For the Group as a whole, Allsop LLP, a firm of independent chartered surveyors valued the Group's property portfolio at 30 September 2018, 31 March 2018, 30 September 2017 and 31 March 2017.

For the half-year and full-year valuations in 2017–18, a full independent valuation involving site visits was performed on approximately 25% of the Group's properties, with a desktop valuation of the remainder.

The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Financing

Until 28 July 2018, the Group operated using the loan facilities provided by HSBC Bank plc ("HSBC"). The interest margin for the facilities was 2% above three month LIBOR. The loan facilities were set to expire on 31 December 2019. However, during the year the proceeds of the sales of properties were applied to reducing the balance of the loans, which was eliminated in full on 28 July 2018.

For the period of the year during which the loan facilities were utilised, the Group's average cost of debt, including margin and amortisation of debt arrangement fees, was 4.09% (2017: 2.8%). The increase in the cost of debt over figure for 2017 related to the accelerated amortisation of loan costs as a result of the early repayment of the loan.

Taxation

The Group continued to operate as a UK REIT throughout the year, under which any profits and gains from the property investment business are exempt from Corporation Tax provided certain conditions continue to be met. The Group fulfilled the UK REIT conditions during the year. The Members' Voluntary Liquidation to be considered by the Company's shareholders at the General Meeting to be held on 12 December 2018 would result in the Group exiting the UK REIT regime. Discussions are in hand with HMRC to ensure that this would take place in an orderly manner. Should the Group depart the UK REIT regime, it would at that point become liable to corporation tax. However, the Board believes that the Group's activities would be unlikely to generate any material corporation tax liability in view, in particular, of the variation between historical property purchase prices and the likely sales prices of assets that are likely to be sold after the Group exits the UK REIT regime.

Dividend

In line with the Company's current dividend distribution policy no dividend will be paid.

Corporate Responsibility

During the year we continued to focus on the three principal contributors to the success of our business:

- the talent and commitment of our management team;
- our relationships with national and local advisers, partners and clients; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

The Company's asset management and accounts team are employed by our fund manager, Principal Real Estate Limited ("Principal"), formerly known as Internos Global Investors Limited.

During the year, we have continued to work closely with national and local agents and other partners both in the context of our property sales programme, as well as the ongoing maintenance and occupation of our properties. We are conscious that our ability to operate effectively rests on our reputation for fairness and a straightforward and honest approach to conducting business.

We therefore strive to transact business in accordance with the highest professional standards and all those who act on our behalf are expected to do the same. Besides complying with all relevant legislation and professional guidelines, this includes customer care and external complaint procedures. Our arrangements with Principal, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures.

We have considered whether it is appropriate to report on relevant human rights issues. In the context of our business, we do not believe that the provision of detailed information in this area would provide any meaningful enhancement to the understanding of the performance of our business. However, we are confident that our approach to doing business does not contravene human rights principles or applicable legislation.

Our approach to corporate responsibility matters is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Employees

The Company had no employees during the year.

Health, Safety and Welfare

Subject to the overriding responsibilities held by the directors, Principal is responsible for ensuring that the Company discharges its obligations for health, safety and welfare, including matters delegated to the Company's managing agents and other contractors. We are pleased with the priority that Principal accords to this area, particularly in respect of the welfare of those engaged on the Company's activities. We note also that our property managers and contractors continue to be required to ensure that property management, maintenance and construction activities conform to all relevant regulations and that due consideration is given to the welfare of occupants and neighbours. Our managing agents, instructed by Principal, undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, and address reported items for improvement. Risk assessments are in place covering fire safety and general health and safety matters for relevant multi-occupancy sites, and during the prior year our managing agents carried out an additional review of our compliance with fire safety requirements.

Community and Partnerships

We continue to take seriously our involvement in local communities as an owner of local property assets and we seek to deal constructively with all stakeholders in relation to any community issues that arise. On a day-to-day basis we prefer to use local advisers, agents and contractors whenever appropriate to do so.

Environment

We believe that our local asset investment model is by its nature supportive of reducing the carbon impact of retail shopping. To the extent that we undertake development activity, this is to return to profitable use redundant space that would otherwise remain vacant, potentially relieving development pressure elsewhere, including on greenfield sites. Construction is carried out in accordance with applicable energy and resource saving standards, noise impact reduction requirements, and, where relevant, the need to preserve the character of buildings, including listed properties. We continue to use local agents and contractors wherever possible. Our contractors are required to dispose of waste in accordance with best practice.

Our Governance

Board of Directors

Stephen East

Independent Non-Executive Chairman, aged 60

Stephen East joined the Board in September 2009, becoming Chairman of the Company in 2014. He previously served as Finance Director of MEPC plc and as Finance Director of Woolworth Group plc. He has previously held non-executive appointments with Regus Group plc, Star Energy Group plc, CQS Diversified Fund Limited, Genesis Housing Association, Marwyn Management Partners plc and Snoozebox Holdings plc. Stephen is a Chartered Accountant and a Fellow of the Association of Corporate Treasurers. Stephen also chaired the Remuneration Committee during the year and he serves on the Audit Committee and Nomination Committee.

Nicholas Vetch

Senior Independent Non-Executive Director, aged 57

Nick Vetch trained as a Chartered Surveyor before becoming Chief Executive of Edge Properties which he founded in 1989. In 1998 he founded Big Yellow Group PLC, of which he is Executive Chairman. He has previously been a non-executive director of Blue Self Storage SL, which operates in Spain. Nick chaired the Audit Committee during the year and also serves on the Remuneration Committee and Nomination Committee.

Brett Miller

Independent Non-Executive Director, aged 50

Brett Miller graduated from the University of the Witwatersrand with a bachelor's degree majoring in Law and Economics, subsequently relocating to the UK in 1989, where he gained a Law degree from the London School of Economics. He qualified as a solicitor and practised law until December 1997. He is currently an executive director of Ranger Direct Lending Fund plc. He is also a non-executive director of M&L Capital Management Global Fund ICAV, M&L Property & Assets plc, Manchester and London Investment Trust plc and TR Asia Value Fund. He serves on the Audit Committee and the Remuneration Committee.

Company Secretary
William Heaney

Corporate Governance

The Company is subject to, and complies with, the Listing Rules and the Disclosure & Transparency Rules of the Financial Conduct Authority. During the year the Company was also subject to the UK Corporate Governance Code 2016 promulgated by the Financial Reporting Council (the "Code"). This Report sets out the ways in which the Company applies the Main Principles of the Code. Subject to matters set out below, the directors consider that the Company complies with all provisions of the Code to the extent to which they apply to companies outside the FTSE 350.

Board Responsibilities and Operation

The Company is led by the Board, which is responsible for determining the strategy of the business and its effective stewardship. All major strategic and investment decisions are taken by the Board as a whole. There is a formal schedule of items reserved for consideration by the Board. The Board meets regularly to review the Company's operations and progress with its strategy. The Board held four meetings during the year. Each scheduled Board meeting has a formal agenda. All material aspects of the business are reviewed on a regular basis, with key items highlighted, to enable the Board to monitor the Company's well-being and progress. These include progress with the investment strategy, portfolio performance and asset management, together with finance, business development and health, safety and welfare and environmental matters. Risk management and controls are reviewed in the light of advice from the Audit Committee and the external auditors. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive relevant reports and papers prior to each meeting. Additional meetings and discussions are arranged outside the Board's regular schedule as necessary and the directors are in regular liaison outside formal meetings.

During the year the relevant executives of the Company's investment adviser, Principal, to whom the Board delegated day-to-day operational management, consulted the directors on a regular basis. The directors also make themselves available to provide advice to the management team.

The division of responsibilities between the executive team and the non-executive directors is clearly defined and recorded via the Company's investment advisory agreement with Principal. The Chairman is charged with responsibility for corporate governance and effective leadership of the Board and Principal is responsible to the Board for the executive management of the business. The Board also benefits from the expertise of Principal in wider property, investment market, regulatory compliance and banking.

The Chairman is responsible for ensuring that due consideration is given to key items of business. The senior independent director provides a separate communication channel for shareholders and other interested parties and has a remit under the Company's "whistle-blowing" arrangements.

The responsibilities of each non-executive director are set out clearly in his letter of appointment, which is available for inspection by members at the Company's registered office during normal office hours. All directors ensure that they provide sufficient time to fulfil their obligations. All directors have access to the advice and services of the Company Secretary, and there is an agreed procedure whereby directors can take independent professional advice at the Company's expense.

Board Composition

Biographical details for each of the directors as at the date of this report, including their membership of the Board's committees, are set out on page 6. Stephen East, Brett Miller and Nicholas Vetch each held office throughout the year to 30 September 2018.

At all times during the year the Board comprised an independent non-executive Chairman and two further independent non-executive directors (one of whom was also the senior independent non-executive director). No executive directors held office and non-executive directors were therefore in the majority throughout the year.

Having considered the criteria set out in the Code and the character and attributes of each individual, the Board considers each of its non-executive directors (Stephen East, Brett Miller and Nicholas Vetch) to be independent within the spirit of the Code and that no individual or group can dominate decision-making.

The Company's Articles of Association require any director appointed to the Board during the year to be reappointed at the next Annual General Meeting. Under the Articles, all directors are, as a minimum, subject to retirement and re-election at every third Annual General Meeting following their initial election. However, the Board has adopted a best-practice policy whereby each director resigns and may offer himself or herself for re-election at each Annual General Meeting, even though this is not a strict requirement for companies outside the FTSE 350. This policy was applied at the 2018 Annual General Meeting, when all directors then holding office resigned and were reappointed.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees. The minutes of each committee meeting are circulated to the Board as a whole. Each committee operates within terms of reference determined by the Board having regard to independent external guidance. Terms of reference for each committee are available on the Company's website www.localshoppingreit.co.uk. The work of the committees is described below.

Nomination Committee

The composition of the Nomination Committee is determined by the Board as the need for it to meet arises. The Committee comprises a minimum of two directors, the majority of whom must be independent non-executive directors. The Committee is responsible for approving all director appointments and is responsible for ensuring that the required standards of skills, experience and stewardship ability are met. In appointing new directors, the Committee and the Board consider advice from external professional consultants. The Committee has formal terms of reference approved by the Board and is chaired by the Company's senior independent non-executive director. The Committee did not meet during the year.

Corporate Governance continued

Audit Committee

The Audit Committee comprises the Board's independent non-executive directors Stephen East, Brett Miller and Nick Vetch and is chaired by Mr Vetch. The Board considers Mr Vetch to have the requisite skills and experience to chair the Committee. The Company Secretary acts as secretary to the Committee. The Committee's responsibilities include:

- monitoring the integrity of the Company's financial statements and formal announcements relating to its financial performance and reviewing significant financial reporting judgements contained in them (subject to the Board's overall responsibility for reviewing and approving the annual directors' report and financial statements);
- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control and risk management systems, fraud detection, regulatory compliance and whistle-blowing arrangements;
- making recommendations to the Board for the approval of shareholders on the appointment, re-engagement or removal of the external Auditors and approving the Auditors' terms of engagement and remuneration;
- overseeing the Company's relationship with the external Auditors, reviewing and monitoring the Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration UK professional and regulatory requirements;
- approving the annual audit plan and reviewing the Auditors' findings and the effectiveness of the audit programme;
- developing and implementing policy on the engagement of the external Auditors to supply non-audit services, taking account of relevant ethical guidance, and making recommendations to the Board in respect of any action or improvement that may be needed;
- reporting to the Board on how the Committee has discharged its activities.

The Committee met four times during the year. The report of the Audit Committee can be found on page 19.

Other members of the Board may attend the Committee's meetings by invitation. Representatives of the Company's Auditors, KPMG LLP ("KPMG"), also attend the Committee's meetings and the Committee's Chairman also holds discussions with the Auditors in the absence of the management team. KPMG have provided the directors with written confirmation of their independence.

The Committee continues to consider that the Company's size and activities do not warrant the establishment of an internal audit function.

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Remuneration Report, which can be found on page 16. The Committee did not meet during the year.

Attendance

Each member's attendance record at Board and Committee meetings is set out in the table below:

Director	Board	Audit	Remuneration	Nomination
Stephen East	4	3	n/a	n/a
Brett Miller	3	2	n/a	n/a
Nick Vetch	4	3	n/a	n/a

Performance Evaluation of the Board and its Committees

The membership, remits and operations of the Board and its Committees are subject to annual evaluation, a process led by the senior independent director supported by the Company Secretary.

Directors' interests in contracts

No director had any material interest in any contract or arrangement with any company within the Group during the year. Jonathan Short and Rupert Wallman, who hold office as directors of the Company's operating subsidiaries, are executives of Principal Real Estate Limited (formerly known as Internos Global Investors Limited), with which the Company had a contract during the year.

No director had any beneficial interest in any subsidiaries of the Company during the year.

The interests of the directors who held office during the year in the issued share capital of the Company as at the date of this report, all of which were beneficial, are set out below:

	Ordinary 20p Shares	
Director	2018	2017
Stephen East	75,000	75,000
Brett Miller	518,000	518,000
Nicholas Vetch	2,873,563	2,873,563

The Company's Articles of Association provide a framework for directors to report actual or potential situational conflicts, enabling the Board to give such situational conflicts appropriate and early consideration. All directors are aware of the importance of consulting the Company Secretary regarding possible situational conflicts.

Directors' Indemnities and Insurance Cover

To the extent permitted by law, the Company indemnifies its directors and officers against claims arising from their acts and omissions related to their office. In accordance with the Code, the Company also maintains an insurance policy in respect of claims against directors.

Directors' Performance Appraisal

During the year, the non-executive directors provide feedback on the performance of the management team within the terms of the investment advisory agreement with Principal.

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors visit the Company's offices between formal meetings and discuss the Company's activities with members of the management team on an informal basis. The asset management team are pleased to arrange for directors to inspect investment properties.

Corporate Governance continued

Prinicipal Risks and Uncertainties

The directors recognise that commercial activities invariably involve an element of risk. A number of the risks to which the business is exposed, such as the condition of the UK domestic economy and sentiment in the UK property market, are beyond the Company's influence. However, such risk areas are monitored and appropriate mitigating action, such as reviewing the substance and timing of the Company's operational plans, is taken wherever practicable in response to significant changes. The Audit Committee considers the risk areas the Company is exposed to in the light of prevailing economic conditions and the risk areas set out in this section are subject to review.

The approach to risk management takes account of the investment strategy adopted by shareholders in July 2013. In relation to asset management it reflects the Company's granular business model and position in the market and involves the expertise of its fund management team and third-party advisers. The management team evaluates each investment, disinvestment and asset management decision on its own merits within the Company's overall investment policy. Operational progress and key investment and disposal decisions are considered in regular management team meetings as well as being subject to informal peer review.

Higher level risks and financial exposures are subject to constant monitoring. Major investment and disposal decisions are subject to review by the directors (all of whom are non-executive) in accordance with a protocol set by the Board. This approach is adopted for large portfolio sales, proposals for which are considered carefully by the Board.

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
Effect on tenants of downturn in macroeconomic environment	• Tenant defaults • Reduced rental income • Increased void costs • Reduction in Net Asset Value and realisation value of assets	• Actual and prospective voids and rental arrears continually monitored. • Early identification of / discussions with tenants in difficulties • Regular review of all properties for lease terminations and tenant risk, with early action to take control of units when appropriate • Limited requirement for tenant incentives within sub-sector • Close liaison with local agents enables swift decisions on individual properties • Tendency of small traders to take early action in response to economic conditions • Diverse tenant base • Sustainable location and property use
Higher than anticipated property maintenance costs	• Income insufficient to cover costs • Decline in property value	• All material expenditure subject to authorisation regime • Capital expenditure subject to regular review
Changes to legal environment, planning law or local planning policy	• Adverse impact on portfolio • Loss of development opportunity • Reduction in realisation value of assets	• Monitoring of UK property environment and regulatory proposals • Close liaison with agents and advisers • Membership of and dialogue with relevant industry bodies
Failure to comply with regulatory requirements in connection with property portfolio, including health, safety and environmental	• Tenant and third-party claims resulting in financial loss • Reputational damage	• Guidance on regulatory requirements provided by managing agents and professional advisers • Individual properties monitored by asset managers and agents • Managing agents operate formal regulatory certification process for residential accommodation • Ongoing programme of risk assessments for key multi-tenanted sites • Key risks covered by insurance policies

Potential Risk	Impact	Mitigation
Corporate Governance & Management		
Non-availability of information technology systems or failure of data security	• Impact on operations and reporting ability • Financial claims arising from leak of confidential information	• Provision by investment adviser of effective security regime with automatic off-site data and systems back-up
Financial and property market conditions	• Insufficient finance available at acceptable rates to fulfil business plans • Inability to execute investment property disposal strategy owing to fall in property market values • Financial impact of debt interest • Breach of banking covenants	• Debt facilities in place until July 2018, following which the Group has been debt-free and debt finance has not been required. • Reducing finance risks resulting from property disposal programme and increasing cash reserve • Impact of interest rates on property yields monitored and investment/disposal policy adjusted accordingly
Failure to meet conditions for membership of UK REIT regime and/or uncontrolled exit from regime	• Potential corporation tax liability • Disruption to corporate management activities	• Continual monitoring of REIT regime requirements • Discussions in hand for controlled exit from REIT regime in the event that shareholders approve Members' Voluntary Liquidation

Internal Governance

During the year, the directors continued to recognise that the Company's ability to operate successfully is largely dependent on the maintenance of its straightforward approach to doing business and its reputation for integrity. All those who act on the Company's behalf are therefore required to behave and transact business in accordance with the highest professional standards. This includes compliance with the requirements of the Market Abuse Regulations, Anti-Money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. The Company has adopted a Code, Policy and procedures under the Market Abuse Regulations. The Company's arrangements with Principal, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures. The directors are satisfied that the governance procedures adopted by Principal in relation to its clients are appropriate and protect the Company's interests. The Company's corporate governance regime is underpinned by a whistle-blowing procedure, enabling perceived irregularities to be notified to members of the Board, principally the senior independent non-executive director.

Corporate Governance continued

Internal Controls

The Board has overall responsibility for the Company's internal control system and for monitoring its effectiveness. The Board's approach is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatements or loss. The directors have not considered it appropriate to establish a separate internal audit function, having regard to the Company's size. The Board has examined and is satisfied that the control processes adopted by Principal are appropriate to the Company's business. The Board's approach to internal controls covers all companies within the Group and there are no associate or joint venture entities which it does not cover.

A summary of the principal risks to which the business is exposed may be found on page 10. The principal foundations of the Company's internal control framework during the year were:

- statements of areas of responsibility reserved to the Board and its committees, with prescribed limits to executive authority to commit to expenditure and borrowing;
- effective committee structure with terms of reference and reporting arrangements to the Board;
- clear remits for the delegation of executive direction and internal operational management functions, set out in the investment advisory agreement with Principal;
- framework for independent directors to provide advice and support to executive directors on an individual basis;
- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- effective systems for authorising capital expenditure and significant revenue items and monitoring actual cost incurred;
- regular reporting to the Board of operational activity and results against expectations with commentary on variances;
- regular review of operational forecasts and consideration by the Board on a quarterly basis;
- regular review of the Company's funding requirements against the status of the financial markets; and
- quarterly reporting to the Board of health, safety and environmental matters.

As part of its half-year and year-end activities, the Board reviews the effectiveness of the Company's risk management systems against the principal risks facing the business and their associated mitigating factors. The Board's review takes account of the findings and recommendations of the Auditors, who review the Company's approach to risk management including the controls implemented by Principal. Following its review of the Auditors' findings during 2017–18, the Board considers that the Company's approach is acceptable.

Investor Relations

The directors place considerable emphasis on effective communications with the Company's investors. Directors are happy to comply with shareholder requests for meetings as soon as practicable, subject to regulatory constraints. The Board is provided with feedback on such meetings, as well as regular commentary from investors and the Company's bankers and advisers. The Board provides reports and other announcements via the regulatory news service in accordance with regulatory requirements. Regulatory announcements and key publications can also be accessed via the Company's website. The Company's Annual General Meeting provides a further forum for investors to discuss the Company's progress and the Board encourages shareholders to attend. The Company complies with relevant regulatory requirements, and also the UK Corporate Governance Code, in relation to convening the meeting, its conduct and the announcement of voting on resolutions. The Annual Report and Notice of the Annual General Meeting are sent to shareholders at least 20 working days prior to the meeting and are available on the Company's website. The results of resolutions considered at the Annual General Meeting are announced to the Stock Exchange and are also published on the website and lodged with the National Storage Mechanism. Investors may elect to receive communications from the Company in electronic form and be advised by email that communications may be accessed via the Company's website. Subsequent to the year-end, the Board issued a circular to the Company's shareholders incorporating a notice of a General Meeting called by the directors to approve a Member's Voluntary Liquidation of the Company and setting out the Board's reasoning for this.

Acquisitions and Disposals

The Group made no material acquisitions during the year.

During the year, the Company continued to sell properties in accordance with its investment policy, details of which are given on the inside front cover of this document.

Group Companies

The subsidiary undertakings of the Company are set out in note 20 to the financial statements.

Group Result and Dividend

The loss for the Group attributable to shareholders for the year was £7.15 million (2017: loss £0.86 million). In accordance with the revised investment policy, no interim dividend has been or will be distributed in respect of the financial year. The directors continue to keep the dividend distribution policy under review.

Use of financial instruments

The Company did not utilise financial instruments during the year.

Share Capital

Details of the Company's issued share capital are set out in note 13 to the financial statements. All of the Company's issued shares are listed on the London Stock Exchange. The Company's share capital comprises one class of Ordinary Shares of 20p each. All issued shares are fully paid up and rank equally. Shares acquired through the Company's employee share schemes rank *pari passu* with shares in issue and no shares carry special rights regarding control of the Company. The Company's Articles impose requirements on shareholders in relation to distributions and the size of individual holdings, in order to ensure that the Company continues to conform to the UK REIT regime. Subject to this, there are no restrictions on the transfer of shares or the size of holdings. A description of arrangements for The Local Shopping REIT plc Employee Benefit Trust to supply shares to meet obligations arising from the Company's employee share schemes is set out in the Employee Share Schemes section, below. The directors are not aware of any agreements between shareholders in relation to the Company's shares. The Company's issued share capital did not alter during the year.

Transactions in the Company's shares

The authority for the Company to purchase its own shares expired at the Annual General Meeting in March 2018 and was not renewed. No share purchases were made during the year.

The directors are also authorised to offer shareholders the alternative of receiving fully paid Ordinary Shares in lieu of dividends. This authority was not used during the year.

Substantial Interests

As at 30 November 2018, the last practicable reporting date before the production of this document, the Company had been notified of the following major interests (of 3% or more) in its issued share capital:

Shareholder	Ordinary Shares	%
Thalassa Holdings Ltd	21,021,195	25.48
Hargreaves Lansdown Asset Management	5,609,703	6.80
EFG Harris Allday	5,600,045	6.79
Baring Asset Management Limited	3,777,154	4.58
N J Vetch	2,873,563	3.48
Mark Begg Asset Management Limited	2,800,481	3.39
Value Investments Limited	2,768,500	3.36
Thames River Capital LLP	2,704,324	3.28
Alliance Trust Savings Limited	2,515,750	3.05

Effect of change of control on significant contracts

Prior to their expiry in July 2018, the funding agreements entered into by certain Group companies required the written approval of the lender for any change to the nature, constitution, management or ownership of the business. The employment contracts of directors do not contain any provisions specifically relating to a change of control. The Company's employee share schemes contain change of control provisions that are considered to be standard for such schemes.

Key Contracts

The Company has in place an agreement with Principal Real Estate Limited ("Principal"), formerly known as Internos Global Investors Limited, to execute the Group's investment policy and to take responsibility for the management and performance of the Company's investment property portfolio. Details of the investment advisory agreement with Principal, including remuneration arrangements, are contained in note 21 to the financial statements. Details of the loan and banking facility agreements with HSBC Bank plc that applied to the Group whilst the facilities were utilised are set out in the Banking Facilities section of the Finance Review.

Corporate Governance continued

Carbon Reporting

Scope

The directors believe that the Company's outsourced business model, which focusses on the employment of agents, advisers and contractors who are local to our property assets, is inherently environmentally friendly. However, the collection of consumption data from such businesses is not practicable. It is also not possible for our national agents and advisers to separately identify such data in relation to the proportion of their work devoted to the Company's activities and it is not possible to measure the energy consumed by the Company's tenants (nor is this consumption within the Company's control). The consumption of water, waste output and greenhouse gases other than CO_2 within the Company's control is negligible.

Accordingly, the scope of the Company's environmental reporting focuses on energy consumed by the Company and its wholly owned subsidiaries through:

- the activities of Principal in relation to the Company's business;
- shared facilities provided by the Company within its property portfolio;
- activities within vacant properties within the Company's control.

Carbon Emissions Data

In relation to Scope 1 figures (consumption of gas and fuel), it is not possible to separately identify the gas consumed on the Company's activities within the Principal office and the only meaningful data that can be supplied relates entirely to fuel consumed on journeys between our property sites. As we do not have a company car fleet, all such journeys are made in employees' private vehicles or on public transport. We have assessed vehicles used against the categories given on the DEFRA website. As in previous years, the use of hire cars and air flights has been minimal.

The Scope 2 figures incorporate an estimate (on a per desk basis) of the energy consumed in relation to our activities within the London office of Principal, together with an estimate of consumption in our vacant properties for which we are responsible. This includes any electricity used in relation to repairs and refurbishments and the conversion and remodelling of premises, as well as standing charges for electricity connections. The increase in the carbon emissions per £1m of turnover is largely attributable to the activity involved in preparing and marketing properties for sale against the background of falling turnover as a consequence of property sales.

It has not been practicable to measure Scope 3 emissions.

Our direct usage and emissions of water is minimal, being largely confined to hygiene and refreshment purposes within Principal's office. Again, it is not practicable to apportion this for the Company's activities. A small element of utility supply within vacant premises will relate to water and to gas. However, this largely relates to standing charges and consumption is negligible.

	2018 Kg CO_2e	**Kg CO_2e per £1m t/o**	2017 Kg CO_2e	Kg CO_2e per £1m t/o
Scope 1 (gas and fuel)	**1,706**	**505**	1,230	204
Scope 2 (electricity)	**7,438**	**2,199**	10,992	1,826
Total gross emissions	**9,144**	**2,704**	12,223	2,030

Employee Share Schemes

During the year the Company operated The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016, details of which are set out in the Remuneration Report.

The Local Shopping REIT plc Employee Benefit Trust (the "Trust") operates to supply shares as appropriate to meet obligations arising from the Company's employee share schemes. The voting rights of shares held by the Trust are identical to the remainder of the Company's issued share capital. During the year the Trust was not called on to supply shares in relation to the exercise of share options (2017: 130,001).

REIT Regime

The Company is subject to the regulatory regime for UK Real Estate Investment Trusts.

Political Donations

During the year the Company made no donations for political purposes (2017: nil).

Amendment of Articles

The Company has no rules in place in relation to the amendment of its Articles in addition to statutory provisions.

Auditors

Subject to the result of the forthcoming General Meeting, the Company's Auditors, KPMG LLP, will resign at the conclusion of the next Annual General Meeting, at which a resolution for their reappointment would be proposed. The ongoing appointment of the Auditors will not be necessary in the event that the General Meeting adopts the resolution for a Members' Voluntary Liquidation of the Company.

Viability Statement

In accordance with the UK Corporate Governance Code 2016, the directors have assessed the Company's continuing viability, taking account of:

- likely conclusion of the execution of the Company's investment strategy;
- the level of the Company's cash holdings;
- the potential impact of the principal risks and mitigation factors described in the Principal Risks section above.

In concluding that the Company continues to be viable, the directors note that the Company is debt-free and has significant cash reserves.

However, in view of the likelihood that the property portfolio will be fully liquidated during the early part of 2019, the directors have recommended to shareholders that the Company enters into a solvent members' voluntary liquidation. Accordingly, the directors consider it appropriate that the Company's financial statements should no longer be prepared on the going concern basis.

Diversity

The Company qualifies as a medium company under in relation to the diversity statements otherwise required under Disclosure and Transparency Rule 7.2 of the Financial Conduct Authority.

Responsibilities Statement

The directors confirm that to the best of their knowledge:

- the report of the directors includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

Our Governance

Remuneration Report

Remuneration Committee Chairman's Statement

During the year the Remuneration Committee operated in accordance with formal terms of reference set by the Board, within which it has been responsible for:

- determining the broad policy for the remuneration and benefits of the Company's executive directors and senior managers;
- approving the design and performance targets for share-related performance plans for the Company; and
- determining the individual remuneration packages of each director, giving due regard to the provisions and recommendations of the Code and the Listing Rules.

The Committee comprises the Company's independent non-executive directors, Stephen East, Brett Miller and Nick Vetch. The Committee is chaired by Stephen East. Biographical details of the members of the Committee are set out on page 6. There was no requirement for the Committee to meet during the year.

Other directors or executives attend meetings of the Committee only by invitation. The Company Secretary serves as secretary to the Committee. The Committee has access to independent remuneration consultants.

Remuneration Policy

This report should be considered bearing in mind that the Company had no employee directors during the year. However, should the Company make relevant appointments in the future, the Company will apply a remuneration policy based on the principles set out below:

- within a competitive market, enabling the recruitment and retention of individuals whose talent matches the entrepreneurial and leadership needs of the business, enabling the Company to fulfil its investment objectives for its shareholders; and
- placing emphasis on performance-related rewards and focusing on incentive targets that are closely aligned with the interests of shareholders.

The Committee is responsible for the operation of the Company's share-related performance plans. Whilst these include the Long Term Incentive Plan and the Share Option Plan, neither of these plans was operated during the year.

The independent non-executive directors engage with Principal with the aim of ensuring that those working on the Company's portfolio, including the Company's former employees, are appropriately incentivised. During the year the Company operated a share-based retention and incentive plan, The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016 ("the 2016 Scheme"), applying to members of the asset management team eligible to participate in such arrangements under the terms of the Company's Employee Benefit Trust. This is a short-term arrangement by which options over the Company's shares are granted subject to vesting criteria linked to the achievement of the Company's investment strategy. The 2016 Scheme replaced a similar scheme, The Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015 ("the 2015 Scheme") that operated during the previous year. No option awards vested in either of the schemes during the year.

In the event that the directors consider it to be in shareholders' interests for the Company to directly engage members of staff, including executive directors, the remuneration policy set out in this report will be applied. In applying the remuneration policy, the Committee will use its discretion, within the terms of schemes previously adopted by the Company, to provide a tailored mix of benefits that encourages individuals to maximise their efforts in the best interests of shareholders. In particular, the remuneration policy would be subject to any special considerations that may arise in relation to the execution of the Company's revised investment policy.

Director Appointments

Under the Company's Articles one-third of the directors are subject to retirement at each Annual General Meeting. However, recognising the best practice provisions of the UK Corporate Governance Code, the Board has implemented a policy for directors to be subject to re-election at each Annual General Meeting. Each of the Company's directors was reappointed pursuant to this policy at the Company's Annual General Meeting in March 2018.

Additionally, the Articles require that director appointments made by the Board directors are ratified at the subsequent General Meeting of the Company.

For non-executive directors, the Company's policy is for initial appointments to be for a term of 12 months, subject to extension by periods of 12 months thereafter and also subject at any time to termination on notice by the Company or the director. This policy is reflected in the terms of the formal appointment document which is in place for each non-executive director, which also sets out the expected time commitment of the non-executive directors to the Company's affairs.

For executive directors, the Company's policy is for service contracts to be capable of termination by the Company at not more than one year's notice.

See Table 2 on page 18.

Non-Executive Pay

The Company's policy is for reviews of non-executive remuneration to be conducted by independent consultants commissioned by the Company Secretary and for such reviews to take place every three years. However, the Board has not considered it appropriate to review non-executive pay and the level of non-executive pay has not changed since the Company's flotation in May 2007. See Table 1 on page 18.

Payments on Loss of Office

The Company's policy on payments to directors on loss of office, in the absence of a breach of contract or other misconduct by the director, is to seek agreement to a termination settlement based on the value of base salary and contractual entitlements that would have applied to the director during his or her contractual notice period. The Remuneration Committee will determine the extent to which it is in the Company's best interests for the director to work during his or her notice period, or (to the extent permissible under his or her contract) to be required not to undertake duties or attend at the Company's premises or receive a payment in lieu of notice. The Committee may seek to require mitigation where it appears to it that it is reasonable in all the circumstances to do so.

Should it appear to the Company that the director may pursue a claim against the Company in respect of a breach of employment rights in addition to his or her contractual entitlement, the Committee may authorise settlement terms with the director that it considers to be reasonable in all the circumstances and in the best interests of the Company.

Shareholder Approval

Subject to the result of the forthcoming General Meeting, a resolution concerning shareholder approval of the implementation of the Company's remuneration policy, as described in the Remuneration Implementation Report, below, will be put to the Company's next Annual General Meeting.

Remuneration Implementation Report

This section sets out the ways in which the Company applied its remuneration policy during the year.

The level of fees paid to non-executive directors was set at the time of the Company's admission to the Official List of the London Stock Exchange in 2007, having regard to market levels at that time. The level of remuneration for non-executive directors, which is set out in the table below, did not change during the year.

At the Company's 2018 Annual General Meeting shareholders passed resolutions approving the Remuneration Implementation Report for 2016–17. Proxy votes for the resolutions showed a majority of 100% of votes cast in favour of the Remuneration Implementation Report.

Directors' Contracts and Terms of Appointment

Nick Vetch has an appointment document dated 30 March 2007, subject to annual extensions. Stephen East has an appointment document dated 9 September 2009, subject to annual extensions. Brett Miller has an appointment document effective from 12 December 2016, subject to annual extensions. In considering annual extensions of the appointments of individual directors, the Board has regard to whether directors may be considered to be independent within the spirit of the Code, that no individual or group can dominate decision-making and that all directors are required to offer their resignations at each Annual General Meeting.

Copies of the directors' service agreements are kept at the Company's registered office, where they are available for inspection by shareholders during usual business hours on weekdays.

Our Governance

Remuneration Report continued

Investor Commentary

During the year the Company did not receive any communications from shareholders specifically regarding directors' pay.

Only the tables in this report (with the exception of Table 2: Directors' Service Contracts) are considered to comprise audited information.

Table 1: Directors' Total Remuneration 2017-18

Non-executive directors	Salary	Short-term incentives	Long-term incentives	Pension contributions	Benefits in kind	Total
Stephen East	30,000	–	–	–	–	30,000
Brett Miller	30,000	–	–	–	–	30,000
Nick Vetch	30,000	–	–	–	–	30,000
Total	90,000	–	–	–	–	90,000

Other than for Mr Miller, who joined the Board part way through 2016–17, the figures in the above table were unchanged from the previous year.

The Company did not employ any executive directors during the year.

Table 2: Directors' Service Contracts

Non-executive directors	Date of initial appointment	Date of current appointment letter	Expiry of term
Stephen East	10 September 2009	10 September 2018	9 September 2019
Brett Miller	12 December 2016	12 December 2017	12 December 2018
Nick Vetch	30 March 2007	30 March 2018	29 March 2019

Directors' Interests in the Company's Shares

The interests of the Directors in Ordinary Shares of 20 pence each in the capital of the Company as at 30 September 2018 are set out in the table below:

Director	Total interest as at 30 September 2017
Stephen East	75,000
Brett Miller	518,000
Nicholas Vetch	2,873,563

Stephen East
Remuneration Committee Chairman
9 December 2018

Audit Committee Report

The Committee met three times during the year and each member's attendance record is set out in the table on page 8. During the year, the Committee paid particular attention to the significant areas set out below, which were discussed in detail with the Auditors.

Valuation of Investment Properties

Key areas of focus for the Committee were the methodology adopted and valuations provided by Allsop LLP ("Allsop"). During the year, we reviewed the valuations for 30 September 2017 and 31 March 2018. Following the year-end, the Committee reviewed the valuations for 30 September 2018.

Going Concern Assumption

The Committee gave particular consideration to whether, in view of the progress with the Company's property sales programme, the Company's financial statements should continue to be prepared on a Going Concern basis. Having reviewed progress with the sales programme and noting the likelihood that it would be completed during the early part of the 2018–19 financial year, together with the Company's investment policy of returning cash to shareholders, the Committee concluded that it should recommend to the Board that the financial statements for 30 September 2018 should not be prepared on a Going Concern basis, which was approved by the Board.

The Committee also covered the following items:

- ensuring that the format of the financial statements and the information supplied meets the standards set by the International Accounting Standards Board;
- reviewing the accounting treatment of receivables and ensuring effective co-ordination between the Company's records and those of its managing agents;
- ensuring that the audit scope properly reflected the risk profile of the business;
- ensuring that the Committee's terms of reference continued to accord with the Code.

The Company's Auditors, KPMG LLP, did not supply any non-audit services to the Company during the year.

Nicholas Vetch
Audit Committee Chairman
9 December 2018

Our Governance

Directors' Report

The directors of The Local Shopping REIT plc ("the Company") present their report and the audited financial statements of the Company together with its subsidiary and associated undertakings ("the Group") for the year ended 30 September 2018.

The Directors' Report also includes the information set out on pages 6 to 19, together with the description of the Company's investment policy and business model described on the inside front cover of this document.

The Company is a public limited company incorporated in England under registered number 05304743, with its registered office at 65 Grosvenor Street, London, W1K 3JH.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations or have no realistic alternative but to do so (as explained in note 1, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Responsibility Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The foregoing reports were approved by the directors on 9 December 2018

William A Heaney
Company Secretary
9 December 2018

Independent Auditors' Report

to the members of the Local Shopping REIT plc only

1 Our opinion is unmodified

We have audited the financial statements of The Local Shopping REIT plc ("the Company") for the year ended 30 September 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors for the year ended 30 September 2005. The period of total uninterrupted engagement is for the fourteen financial years ended 30 September 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Investment property held for sale £22.3m (2017: £55.9m), Risk vs 2017: ◀▶

Refer to Audit Committee Report (page 19), accounting policy (page 29), and financial disclosures (page 34).

The risk: Subjective valuation

Investment property held for sale is the Group's largest asset category. The valuation requires significant judgements and estimates, from both directors and external valuers, with respect to the key assumptions, including yield rates and ERVs (Estimated Rental Values). Where properties are sold post year-end and prior to approval of the financial statements the level of judgement is reduced as the achieved sales prices are a strong indication of fair values at the year-end. Of the total portfolio held at 30 September 2018 of £22.3m, £7.6m is unsold at the date of approval of the financial statements (2017: £54.6m) and hence the risk has reduced year on year.

Our response

Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), included:

1. **Understanding of valuation approach:** We met the Group's external valuer to understand the assumptions used in valuing the investment properties not sold at the date of approval of the financial statements and the market evidence used by the external valuer to support these assumptions.
2. **Assessing valuer's credentials:** We assessed the independence, professional qualifications, competence and experience of the external valuer used by the Group.
3. **Our sector experience:** We challenged the key assumptions used in the valuations, in particular yield rates, for a sample of properties. Our sample was determined with reference to: properties with significant movement in rental yields and properties experiencing the most significant valuation movements. We evaluated assumptions used as part of the valuation, in particular those relating to growth rates, yields and ERVs using our own valuation specialist.

Independent Auditors' Report continued

to the members of the Local Shopping REIT plc only

4. **Retrospective testing of disposals:** We tested the disposals in the period and the level of profit or loss achieved on each disposal to ascertain whether management's judgement was sound and therefore if there was any potential indication of management bias in the year-end valuations.
5. **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.

Our results

We found the valuation of investment properties held for sale to be acceptable.

Recoverability of parent Company's investments in subsidiaries £21.0m (2017: £26.5m), Risk vs 2017: ◀▶

Refer to Audit Committee Report (page 19), accounting policy (page 29) and financial disclosures (page 47).

The risk: Forecast-based valuation

The carrying amount of the parent Company's investments in subsidiaries is the most significant item on the parent Company balance sheet and at risk of irrecoverability as certain subsidiaries have historically been loss-making and the subsidiaries are now going through a phase of disposing of their final properties. The estimated recoverable amount of investments is subjective due to the inherent uncertainty in judgements and estimates used in the impairment test i.e. the value of the investment properties held for sale (as described in the risk above). The risk has increased this year due to the fact that the value of the investment represents predominantly the investment properties held for sale in the subsidiaries. Due to the volatility in this balance (as the majority of these have been disposed of during the year) there is an increased risk that the investment is no longer supported by the net assets of the subsidiaries.

Our response

Our procedures included:

1. **Test of details:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheets as at 30 September 2018 to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
2. **Test of details:** assessing subsidiary audits: Assessing the work performed by the Group audit team on all of those subsidiaries and considering the results of that work in relation to the valuation of investment properties held for sale (the key input used in the relevant subsidiaries' net assets).

Our results

We found the Group's assessment of the recoverability of the investments in subsidiaries and the resulting impairment charge to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £300,000 (2017: £685,000) determined with reference to a benchmark of Group total assets, of which it represents 0.9% (2017: 1%).

Materiality for the parent Company financial statements as a whole was set at £285,000 (2017: £279,000), determined with reference to a benchmark of Company total assets, of which it represents 0.9% (2017: 0.5%). In addition, we applied materiality of £21,300 (2017: £59,000) to certain Group income statement items, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Group. These items are gross rental income and management fees.

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £15,000 (2017: £34,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The Group audit was performed using the materiality levels specified above and covered 100% (2017: 100%) of total Group revenue, Group profit before tax, and Group total assets.

4 Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, other than the emphasis of matter over the non-going concern basis of preparation referred to above, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 15 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

We are required to report to you if the Corporate Responsibility Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditors' Report continued

to the members of the Local Shopping REIT plc only

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditors responsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition, we considered the impact of laws and regulations in the specific areas of anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Flanagan (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
31 Park Row
Nottingham
NG1 6FQ

9 December 2018

Consolidated Income Statement

for the year ended 30 September 2018

	Note	2018 £000	2017 £000
Gross rental income		**3,381**	6,023
Property operating expenses	2	**(2,451)**	(1,968)
Net rental income		**930**	4,055
Loss on disposal of investment properties	3	**(1,417)**	(1,298)
Loss from change in fair value of investment properties	7	**(4,536)**	(689)
Administrative expenses including non-recurring items	4	**(1,522)**	(1,738)
Operating profit before net financing costs		**(6,545)**	330
Financing income*	5	**2**	5
Financing expenses*	5	**(611)**	(1,193)
Loss before tax		**(7,154)**	(858)
Taxation	6	**–**	–
Loss for the year		**(7,154)**	(858)
Loss for the financial year attributable to equity holders of the Company		**(7,154)**	(858)
Basic and diluted loss per share on loss for the year	15	**(8.67)p**	(1.04)p
Basic and diluted loss per share on operations for the year	15	**(8.67)p**	(1.04)p

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2018

	2018 £000	2017 £000
Loss for the financial year	**–**	(858)
Loss for the financial year on discontinued operations (below)	**(7,154)**	–
Total comprehensive loss for the year	**(7,154)**	(858)
Attributable to:		
Equity holders of the parent Company	**(7,154)**	(858)

	2018 £000
Revenue less expenses for the financial year on discontinued operations	**(2,618)**
Fair value adjustment of assets held for sale from discontinued operations	**(4,536)**
Total comprehensive loss for the year	**(7,154)**
Taxation on discontinued operations	**–**
Total loss for the financial year on discontinued operations (above)	**(7,154)**

Our Financials

Consolidated Balance Sheet

as at 30 September 2018

	Note	2018 £000	2017 £000
Non-current assets			
Investment properties	7	–	54,613
		–	54,613
Current assets			
Trade and other receivables	8	4,341	2,143
Investment properties held for sale	7	22,317	1,280
Cash	9	3,292	10,455
		29,950	13,878
Total assets		29,950	68,491
Non-current liabilities			
Interest bearing loans and borrowings	10	–	(29,462)
Finance lease liabilities	12	–	(431)
		–	(29,893)
Current liabilities			
Interest bearing loans and borrowings	10	–	(1,209)
Trade and other payables	11	(2,217)	(2,600)
		(2,217)	(3,809)
Total liabilities		(2,217)	(33,702)
Net assets		27,733	34,789
Equity			
Issued capital	13	18,334	18,334
Reserves	13	3,773	3,773
Capital redemption reserve	13	1,764	1,764
Retained earnings		3,862	10,918
Total attributable to equity holders of the Company		27,733	34,789

Consolidated Statement of Cash Flows

for the year ended 30 September 2018

	Note	2018 £000	2017 £000
Operating activities			
(Loss)/Profit for the year		(7,154)	(858)
Adjustments for:			
Loss from change in fair value of investment properties	7	4,536	689
Net financing costs	5	609	1,188
Loss on disposal of investment properties		1,417	1,298
Equity secured share-based payment expenses		98	98
		(494)	2,415
Increase in trade and other receivables		(2,198)	(49)
Increase/(Decrease) in trade and other payables		(265)	388
		(2,957)	2,754
Interest paid		(445)	(1,087)
Loan arrangement fees paid		(23)	(280)
Interest received		2	5
Net cash (outflow)/inflow from operating activities		(3,423)	1,392
Investing activities			
Net proceeds from sale of investment properties		27,380	18,373
Acquisition and improvements to investment properties	7	(188)	(514)
Cash flows from investing activities		27,192	17,859
Net cash flows from operating activities and investing activities		23,769	19,251
Financing activities			
Repayment of borrowings		(30,932)	(19,796)
Payments to close swaps		–	–
Cash flows from financing activities		(30,932)	(19,796)
Net decrease in cash		(7,163)	(545)
Cash at beginning of year		10,455	11,000
Cash at end of year	9	3,292	10,455

Our Financials

Consolidated Statement of Changes in Equity

for the year ended 30 September 2018

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 October 2016	18,334	3,773	1,764	11,678	35,549
Total comprehensive expense for the year					
Loss for the year	–	–	–	(858)	(858)
Total contributions by and distributions to owners	–	–	–	–	–
Share-based payments	–	–	–	98	98
Balance at 30 September 2017	18,334	3,773	1,764	10,918	34,789
Total comprehensive expense for the year					
Loss for the year	–	–	–	(7,154)	(7,154)
Total contributions by and distributions to owners	–	–	–	–	–
Share based payments				98	98
Balance at 30 September 2018	**18,334**	**3,773**	**1,764**	**3,862**	**27,733**

Notes to the Financial Statements

for the year ended 30 September 2018

1. Accounting Policies

Basis of Preparation

The Local Shopping REIT plc (the "Company") is a public company incorporated, domiciled and registered in England. The registered number is 05304743 and the registered address is 65, Grosvenor Street, London, W1K 3JH.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and in accordance with the provisions of the Companies Act 2006. The Company has elected to prepare its parent Company financial statements in accordance with FRS 102; these are presented on pages 44 to 49.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this note under the heading "*Use of Estimates and Judgements*".

The financial statements are prepared in pounds sterling, rounded to the nearest thousand. They have been prepared under the historical cost convention except for the following assets, which are measured on the basis of fair value: investment properties and investment properties held for sale.

Going Concern

The Company has continued its policy, established in 2013, of realising assets and returning capital to shareholders. Prior to the year end the Board determined that progress with the sales of properties had been such that it was no longer appropriate to prepare financial statements on a going concern basis.

Accordingly, these statements include the following adjustments to bring the results to a break-up basis:

1. The property portfolio has been revalued to reflect the expected net realisable proceeds of the individual properties, after taking into account realisation costs.
2. Provision has been made for anticipated expenditure on the property portfolio prior to sale.
3. The head lease value has been removed from the Balance Sheet, along with its matching finance liability.
4. Provision has been made for expected legal and professional costs of the liquidation.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 30 September 2018. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies. Inter-company transactions and balances are eliminated.

Investment Property

Investment properties are those properties owned by the Group that are held to earn rental income or for capital appreciation or both and are not occupied by the Company or any of its subsidiaries.

Since the Balance Sheet date a number of properties have exchanged contracts for sale, been sold at auction or have completed sale following an exchange of contracts during the year. For these properties the sale proceeds less sales costs have formed the basis of the valuation at the balance sheet date. The remaining properties have been valued by Allsop LLP following the Company's normal valuation policy as set out in the following paragraph.

For the Group as a whole Allsop LLP, a firm of independent chartered surveyors, valued the Group's property portfolio at 30 September 2018 (subject to the above paragraph), 31 March 2018, 30 September 2017 and 31 March 2017. On each of these dates Allsop LLP performed a full valuation of 25% of the Group's properties (including site inspections) and a desktop valuation of the remainder, such that all properties owned by the Group have been inspected and valued over the two-year period. The valuations, using assumptions regarding yield rates, void levels and comparable market transactions, were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Notes to the Financial Statements continued

for the year ended 30 September 2018

1. Accounting Policies continued

Investment properties are treated as acquired at the point the Group assumes the significant risks and returns of ownership. Subsequent expenditure is charged to the asset's carrying value only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the Income Statement during the period in which they are incurred.

Interest on loans associated with acquiring investment properties is expensed on an effective interest rate basis.

Rental income from investment properties is accounted for as described below.

Investment Properties Held for Sale

Investment properties held for sale are included in the Balance Sheet at their fair value. In determining whether assets no longer meet the investment criteria of the Group, consideration has been given to the conditions required under IFRS 5.

An investment property shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable as at the year end.

All the investment properties held at the balance sheet date meet the above criteria. Accordingly, the whole portfolio has been included as assets held for sale, and in the case of properties valued by Allsop, these valuations have been further reduced to reflect the anticipated legal and other costs on sale.

Head Leases

The previous policy has been that where a property is held under a head lease and is classified as an investment property, it is initially recognised as an asset based on the sum of the premium paid on acquisition and if the remaining life of the lease at the date of acquisition is considered to be material, the net present value of the minimum ground rent payments. The corresponding rent liability to the leaseholder was included in the Balance Sheet as a finance obligation in current and non-current liabilities.

As the Company has no investment properties at the Balance Sheet date, the head lease value and its corresponding liability have been removed from the Balance Sheet.

The payment of head rents has been expensed through the Income Statement.

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost less impairment. Impairment is made where it is established that there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The impairment is recorded in the Income Statement.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and deposits held on call. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

Outstanding interest rate swaps were paid down.

Financial Assets

Financial assets are impaired when there is objective evidence that the cash flows from the financial asset are reduced.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently held at amortised cost.

Ordinary Share Capital

External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Shares which have been repurchased are classified as treasury shares and shown in retained earnings. They are recognised at the trade date for the amount of consideration paid, together with directly attributable costs. This is presented as a deduction from total equity. Shares held by the Employee Benefit Trust are treated as being those of the Group until such time as they are distributed to employees, when they are expensed in the profit and loss account.

The nominal value of shares cancelled has been taken to a capital redemption reserve.

Rental Income

Rental income from investment properties leased out under operating leases is recognised in the Income Statement on a straight-line basis over the term of the lease. When the Group provides lease incentives to its tenants the costs of incentives are recognised over the lease term, on a straight-line basis, as a reduction to income.

Taxation

Corporation tax on the profit or loss for the year comprises current and deferred tax. Corporation tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As a REIT, the Group will be exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. Therefore, current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The REIT entry charge is expensed on the date of entry to the REIT regime. Deferred tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is calculated after taking into account any indexation allowances and capital losses on an undiscounted basis. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right of set-off.

Pensions

The Company has no pension arrangements in operation.

Share-based Payments

Share-based payments are recognised as an employee expense, with a corresponding increase in equity.

Employee Benefit Trust

In 2007 the Group established an Employee Benefit Trust in connection with its various share-based incentive schemes. The Group either purchased its own shares directly or it funded the trust to acquire shares in the Company. Transactions of the Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Group financial statements.

Use of Estimates and Judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances. The results of these considerations form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

The areas requiring the use of estimates and judgements that may significantly impact the Group's earnings and financial position include the estimation of the fair value of investment properties.

The valuation basis of the Group's investment properties is set out above.

Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reported to the chief operating decision maker to allocate resources to the segments and to assess their performance.

Since the strategy review in July 2013 the Group has identified one operation and one reporting segment which is reported to the Board of directors on a quarterly basis. The Board of directors is considered to be the chief operating decision maker.

Adoption of new and revised standards

In the current year, the Group has applied IFRS 16, which is now mandatorily effective. This adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position

At the date of approval of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

Effective for periods beginning on or after:

- Amendments to IFRS 11 Joint Arrangements 1 January 2018
- Amendments to IAS 40 Transfers of Investment Properties 1 January 2018
- IFRS 15 Revenue Contracts with Customers 1 January 2018
- IFRS 9 Financial Instruments 1 January 2018

None of the above standards are expected to have a material impact on the future financial statements of the Group.

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2018

2. Property Operating Expenses

	2018 £000	2017 £000
Bad debt charge	(221)	(353)
Head rent payments	(37)	(31)
Repairs	(993)	(343)
Business rates and council tax	(185)	(245)
Irrecoverable service charge	(122)	(160)
Utilities	(108)	(66)
Insurance	(53)	(92)
Managing agent fees	(158)	(242)
Leasing costs	(266)	(231)
Legal & professional	(173)	(73)
EPC amortisation, Abortives, and Miscellaneous	(135)	(132)
Total property operating expenses	(2,451)	(1,968)

3. Property Disposals

	2018 Number	2017 Number
Number of sales	107	142
	£000	£000
Average value	264	136
Sales		
Total sales	28,198	19,287
Carrying value	(28,797)	(19,671)
Loss on disposals before transaction costs	(599)	(384)
Transaction costs		
Legal fees	(339)	(307)
Agent fees, marketing and brochure costs	(426)	(499)
Disbursements	(2)	(23)
Non-recoverable VAT (on non-opted and residential elements)	(51)	(85)
Total transaction costs	(818)	(914)
Loss on disposals after transaction costs	(1,417)	(1,298)
Transaction costs as percentage of sales value	-2.9%	-4.7%

4. Administrative Expenses

	2018 £000	2017 £000
Investment manager fees	(496)	(918)
Legal and professional	(186)	(145)
Tax and audit*	(113)	(116)
Remuneration Costs[1]	(194)	(187)
Other	(41)	(44)
Irrecoverable VAT on administrative expenses[2]	(92)	(200)
Non recurring expenditure	–	(128)
Provision for liquidators' fees	(250)	–
Provision for legal costs of winding up	(150)	–
Total administrative expenses	**(1,522)**	(1,738)

[1] Remuneration costs include £98,000 (30 September 2017: £98,000) in respect of the expensing of employee share options which vest in 2018 onwards or if liquidation targets are met. This amount has a corresponding entry in equity and has no impact on the Company's net assets now or in the future.

[2] The Company's portfolio contains residential elements and commercial properties not opted for VAT. Accordingly, VAT on overheads is not fully recoverable.

* The following fees have been paid to the Group's Auditors:

	2018 £000	2017 £000
Auditors' remuneration for audit services:		
Audit of parent Company	34	34
Audit related assurance services	16	16
Statutory audit of subsidiaries	39	39
Auditors' remuneration for non-audit services:		
Tax services	–	–
Other services supplied	–	–

5. Net Financing Costs

	2018 £000	2017 £000
Interest receivable	2	5
Interest receivable excluding fair value movements	2	5
Fair value gains on derivative financial instruments (note 16)	–	–
Financing income	2	5
Bank loan interest	(327)	(961)
Amortisation of loan arrangement fees	(261)	(181)
Head rents treated as finance leases	–	(27)
Bank facility fees	(23)	(24)
Financing expenses excluding swap closing costs	(611)	(1,193)
Payments to close swaps	–	–
Financing expenses	(611)	(1,193)
Net financing costs	(609)	(1,188)

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2018

6. Taxation

	2018 £000	2017 £000
(Loss)/Profit before tax	(7,154)	(858)
Corporation tax in the UK of 20% (2017: 20%)	(1,431)	(172)
Effects of:		
Revaluation deficit and other non-deductible items	907	137
Deferred tax asset/(liability) not recognised	(524)	(35)
Total tax	–	–

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2016) were substantively enacted on 2 July 2013. Further reductions to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2016. From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group will be exempt from corporation tax on the profits and gains from its property investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post-11 May 2007 originates from the Group's tax-exempt business.

Due to the availability of losses no provision for corporation tax has been made in these accounts. The deferred tax asset not recognised relating to these losses can be carried forward indefinitely. It is not anticipated that sufficient profits from the residual business will be generated in the foreseeable future to utilise the losses carried forward and therefore no deferred tax asset has been recognised in these accounts. The unprovided deferred tax asset at 30 September 2018 was £3.01m (2017: £2.51m).

7. Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 30 September 2016	59,334	14,951	74,285
Additions	449	65	514
Disposals – property	(16,472)	(3,199)	(19,671)
Disposals – head leases	–	(136)	(136)
Fair value adjustments	(863)	174	(689)
Movement on Investment properties held for sale	122	188	310
At 30 September 2017	42,570	12,043	54,613
Additions	116	72	188
Disposals – property	(23,134)	(5,663)	(28,797)
Disposals – head leases	–	(431)	(431)
Fair value adjustments	(2,735)	(1,801)	(4,536)
Movement on Investment properties held for sale	(16,817)	(4,220)	(21,037)
At 30 September 2018	**–**	**–**	**–**

The investment properties have all been revalued to their fair value at 30 September 2018.

All rental income recognised in the Income Statement is generated by the investment properties held and all direct operating expenses incurred resulted from investment properties that generated rental income.

A reconciliation of the portfolio valuation to the total value given in the Balance Sheet for investment properties is as follows:

	2018 £000	2017 £000
Portfolio valuation	22,317	55,462
Investment properties held for sale	(22,317)	(1,280)
Head leases treated as investment properties held under finance leases per IAS 17	–	431
Total per Balance Sheet	–	54,613

8. Trade and Other Receivables

	2018 £000	2017 £000
Trade receivables	541	620
Other receivables	3,609	840
Prepayments	191	683
	4,341	2,143

9. Cash

	2018 £000	2017 £000
Cash in the Statement of Cash Flows	3,292	10,455

At 30 September 2017 the bank balances included amounts held pending the next interest payment due in October 2017. Until the interest payment had been deducted from these balances the cash was not available for use by the Group. At 30 September 2017 the amount held on such account was £1.218m, with accruals for interest due of £0.118m. At 30 September 2018 all borrowings have been repaid and there are no restrictions over the accounts nor is there any accrual for interest.

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2018

10. Interest Bearing Loans and Borrowings

	2018 £000	2017 £000
Non-current liabilities		
Secured bank loans	–	29,723
Loan arrangement fees	–	(261)
	–	29,462
Current liabilities		
Current portion of secured bank loans	–	1,209

During the year all bank borrowing was repaid. Prepaid loan arrangement fees of £0.261m were expensed through the profit and loss account.

For more information about the Group's exposure to interest rate risk, see note 17.

11. Trade and Other Payables

	2018 £000	2017 £000
Trade payables	98	346
Other taxation and social security	40	240
Other payables	1,425	991
Accruals and deferred income	654	1,023
	2,217	2,600

Other payables include rent deposits held in respect of commercial tenants of £0.340m (2016: £0.455m).

12. Leasing

Obligations Under Finance leases

Finance lease liabilities on head rents are payable as follows:

	Minimum Lease Payment £000	Interest £000	Principal £000
At 30 September 2016	4,095	(3,528)	567
Disposals	(993)	857	(136)
(Payments)/Charge	(27)	27	–
At 30 September 2017	3,075	(2,644)	431
Disposals	(3,075)	2,644	(431)
(Payments)/Charge			–
At 30 September 2018	–	–	–

As explained in note 1, the finance leases are no longer considered appropriate to show in the Balance Sheet.

13. Capital and Reserves

Share Capital

	2018 Ordinary 20p Shares Number 000s	2018 Ordinary 20p Shares Amount £000	2017 Ordinary 20p Shares Number 000s	2017 Ordinary 20p Shares Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Investment in Own Shares

At the year end, 9,164,017 shares were held in treasury (2017: 9,164,017).

Employee Benefit Trust ("EBT")

The number of shares held by the Company's Employee Benefit Trust, LSR Trustee Limited, at the year-end was 791,098 (2017: 921,098). During the year:

1. No shares (2017: 791,098 shares) were allocated to beneficiaries under the Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2016.
2. The EBT transferred no shares to employees on the exercise of awards under either the Company's Long Term Incentive Plan or the Company's Share Option Scheme.
3. During 2017 options over 130,000 shares which had vested in 2016 under the Local Shopping REIT plc Employee & Former Employee Incentive Scheme 2015 were exercised, and this number of shares was transferred from the EBT to beneficiaries of this scheme.

Reserves

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

Calculation of Net Asset Value Per Share (NAV)

	2018 £000	2017 £000
Net assets	**27,733**	34,789

	2018 Number 000s	2017 Number 000s
Allotted, called up and fully paid shares	**91,670**	91,670
Treasury shares	**(9,164)**	(9,164)
Number of shares	**82,506**	82,506
NAV per share	**34p**	42p

14. Dividends

No dividends were paid during the current and previous year.

Notes to the Financial Statements continued

for the year ended 30 September 2018

15. Earnings Per Share

Basic Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to Ordinary Shareholders and a weighted average number of Ordinary Shares outstanding, calculated as follows:

Loss Attributable to Ordinary Shares

	2018 £000	2017 £000
(Loss)/Profit for the year	(7,154)	(858)
(Loss)/Profit on continuing operations for the year	(7,154)	(858)

Weighted Average Number of Ordinary Shares

	2018 Number	2017 Number
Issued Ordinary Shares at 1 October	91,670	91,670
Treasury shares	(9,164)	(9,164)
Weighted average number of Ordinary Shares at 30 September	82,506	82,506
Basic and diluted loss per share for the year	(8.67)p	(1.04)p

Diluted Earnings Per Share

As shares held in the Employee Benefit Trust are entitled to dividends, these have been included in the weighted average number of shares. There are no other potentially dilutive securities and therefore no difference between basic and diluted earnings per share.

16. Financial Instruments and Risk Management

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has identified exposure to the following financial risks from its use of financial instruments: capital management risk, market risk, credit risk and liquidity risk.

Capital Management Risk

The Group's capital consists of cash and equity attributable to the shareholders. Following repayment of the bank borrowing, the Board does not consider there is any material capital management risk exposure.

Market Risk

Market risk is the risk that changes in market conditions, such as interest rates, foreign exchange rates and equity prices, will affect the Group's profit or loss and cash flows. The Group's exposure to market risks was restricted to interest rate risk only. Following repayment of the bank borrowing, the Board does not consider there is any material market risk exposure.

The Group does not speculate in financial instruments. They have only been used to limit exposure to interest rate fluctuations. With the proposed liquidation ahead, it is not likely that any borrowing and hence exposure to interest rate will occur.

Sensitivity Analysis

IFRS 7 requires an illustration of the impact on the Group's financial performance of changes in interest rates. The following sensitivity analysis has been prepared in accordance with the Group's existing accounting policies and considers the impact on the Income Statement and on equity of an increase of 100 basis points (1%) in interest rates. As interest rates were below 1% in the current and previous year, it has not been possible to consider the impact of a decrease of 100 basis points on interest income and expense as it would result in a negative rate of interest. Therefore, the impact of a fall in interest rates has been restricted to a floor of 0%. All other variables remain the same and any consequential tax impact is excluded. The analysis assumes that changes in market interest rates affect the interest income and interest expense of derivative financial instruments.

Actual results in the future may differ materially from these assumptions and, as such, these tables should not be considered as a projection of likely future gains and losses.

	2018				2017			
	Impact on Income		Impact on Equity		Impact on Income		Impact on Equity	
	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%	Increase by 1%	Decrease to 0%
Impact on Interest income and expense in £000s	nil	nil	nil	nil	(238)	79	(238)	79

The above table is for comparison purposes for 2017. As the bank borrowing has been repaid it is not applicable to the current year.

Fair value measurements recognised in the statement of financial position

Investment properties and Investment properties held for sale are measured subsequent to initial recognition at fair value and have been grouped as Level 3 (2016: level 3) based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment properties have been valued using the investment method which involves applying a yield to rental income streams.

Inputs include equivalent yield, tenancy information, and leasing assumptions. Valuation reports are based on both information provided by the Company, e.g. tenancy information including current rents, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers, e.g. ERVs, and yields. These assumptions are based on market observation and the valuers' professional judgement.

An increase/decrease in equivalent yields will decrease/increase valuations, and an increase or decrease in rental values will increase or decrease valuations. Other inputs include ERVs, and likely void and rent-free periods. There are interrelationships between these inputs as they are determined by market conditions. The valuation movement in a period depends on the balance of those inputs.

Below is a sensitivity analysis of the impact of a 1% increase or decrease in equivalent yields on income and equity. Actual results may differ materially from these assumptions and, as such, these tables should not be considered as a projection of likely future gains and losses.

	2018				2017			
	Impact on Income		Impact on Equity		Impact on Income		Impact on Equity	
	Increase by 1%	Decrease to 1%	Increase by 1%	Decrease to 1%	Increase by 1%	Decrease to 1%	Increase by 1%	Decrease to 1%
Impact in £000s	(561)	659	(561)	659	(5,297)	6,548	(5,297)	6,548

Credit Risk

Credit risk is the risk of financial loss to the Group if a tenant, bank or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from tenants, cash and cash equivalents held by the Group's banks and derivative financial instruments entered into with the Group's banks.

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. At 30 September 2018 the Group had over 380 letting units in 75 properties. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. Geographically there is no concentration of credit risk in any one area of the UK. An analysis of the business by region, user type and tenant grade is given in the Operating Review. The level of arrears is monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

Cash, Cash Equivalents and Derivative Financial Instruments

Two major UK banks provide the majority of the banking services used by the Group. In the past, financial derivatives were only entered into with one of these core banks.

Our Financials

Notes to the Financial Statements continued

for the year ended 30 September 2018

16. Financial Instruments and Risk Management continued

The Group's financial assets which are exposed to credit risk are classified as follows and are shown with their fair value:

30 September 2018

	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Cash and cash equivalents	3,292	–	3,292	3,292
Trade receivables	–	541	541	541
Other receivables	–	3,609	3,609	3,609
	3,292	4,150	7,442	7,442

30 September 2017

	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Cash and cash equivalents	10,455	–	10,455	10,455
Trade receivables	–	620	620	620
Other receivables	–	840	840	840
	10,455	1,460	11,915	11,915

For all classes of financial assets, the carrying amount is a reasonable approximation of fair value.

	2018			2017		
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	229	–	229	123	–	123
Past due by one to 30 days	191	–	191	294	–	294
Past due by 30–60 days	42	–	42	87	–	87
Past due by 60–90 days	19	–	19	28	–	28
Past due by 90 days	707	(647)	60	630	(542)	88
	1,188	(647)	541	1,162	(542)	620
Impairment as percentage of total debt		54.46%			46.64%	

Trade receivables that are not impaired are expected to be recovered.

The movement in the trade receivables' impairment allowance during the year was as follows:

	2018 £000	2017 £000
Balance at beginning of year	542	452
Impairment loss recognised	221	353
Trade receivables written off	(116)	(263)
Balance at end of year	647	542

The impairment loss recognised relates to the movement in the Group's assessment of the recoverability of outstanding trade receivables.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have adequate resources to meet its liabilities when they fall due for both the operational needs of the business and to meet planned future investments. This position is formally reviewed on a quarterly basis or more frequently should events require it.

The Group's financial liabilities are classified and are shown with their fair value as follows:

30 September 2018

	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Interest bearing loans and liabilities	–	–	–
Finance lease liabilities	–	–	–
Trade payables	98	98	98
Other payables	1,425	1,425	1,425
Accruals	654	654	654
	2,177	2,177	2,177

30 September 2017

	At Amortised Cost £000	Total Carrying Amount £000	At Fair Value £000
Interest bearing loans and liabilities	30,671	30,671	30,671
Finance lease liabilities	431	431	431
Trade payables	346	346	346
Other payables	991	991	991
Accruals	1,023	1,023	1,023
	33,462	33,462	33,462

For all classes of financial liabilities, the carrying amount is a reasonable approximation of fair value.

The maturity profiles of the Group's financial liabilities are as follows:

30 September 2018

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	–	–	–	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–	–	–
Trade payables	98	98	98	–	–	–	–	–
Other payables	1,425	1,425	1,425	–	–	–	–	–
Accruals	654	654	654	–	–	–	–	–
	2,177	2,177	2,177	–	–	–	–	–

30 September 2017

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	30,671	39,340	2,402	1,641	35,297	–	–	–
Finance lease liabilities	431	3,116	27	27	27	27	27	2,981
Trade payables	346	346	346	–	–	–	–	–
Other payables	991	991	991	–	–	–	–	–
Accruals	1,023	1,023	1,023	–	–	–	–	–
	33,462	44,816	4,789	1,668	35,324	27	27	2,981

Contractual cash flows include the undiscounted committed interest cash flows and, where the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the year-end.

Notes to the Financial Statements continued

for the year ended 30 September 2018

17. Operating Lease Arrangements

a) Leases as Lessee

The Company has no leases where it is a lessee.

b) Leases as Lessor

The investment properties are let under operating leases. Future minimum lease payments receivable by the Group under non-cancellable operating leases are receivable as follows:

	2018 £000	2017 £000
Less than one year	675	1,407
Between one and five years	802	1,654
More than five years	836	1,996

The above information has been provided for comparison purposes only. As the properties are all anticipated to be sold within six months of the balance sheet date, only a small proportion of the £2.313m will actually be received.

18. Capital Commitments

Provision has been made for further anticipated expenditure on the properties as 30 September 2018. At 30 September 2017 the Group had contracted capital expenditure for which no provision had been made in the 2017 financial statements of £93,400.

19. Related Parties

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Remuneration Report.

The key management personnel of the Group for the purposes of related party disclosures under IAS 24 comprise all executive and non-executive directors.

See also Note 21: Significant Contracts.

20. Group Entities

All the companies below are incorporated in the United Kingdom and 100% owned at 30 September 2017 and 2018:

NOS 4 Limited

NOS 5 Limited

NOS 6 Limited

NOS 7 Limited

Gilfin Property Holding Limited

LSR Trustee Limited

21. Significant contracts

With effect from 22 July 2013 the Company entered into a management agreement with Principal Real Estate Limited (or "Principal", at that time known as Internos Global Investors Limited or "Internos"). Under this agreement the Company pays to Principal:

- An annual management fee of 0.70% of the gross asset value of the portfolio, subject to a minimum fee of £1m in each of the first two years, £0.95m for the third year and £0.9m for the fourth year.
- An annual performance fee of 20% of the recurring operating profits above a pre-agreed target recurring profit.
- Fees for cumulative property sales as follows:
  - Up to £50m: nil
  - £50m–£150m: 0.5% of sales
  - Over £150m: 1.0% of sales
- A terminal fee of 5.7% of cash returned to the Company's shareholders in excess of 36.1 pence per share from the Effective Date (22 July 2013) outside of dividend payments (the "Terminal Fee Hurdle"). The Terminal Fee Hurdle rises by 8% per annum after the first year but reduces on a pro rata daily basis each time equity is returned to shareholders outside of dividend payments from recurring operating profits.

As at the year-end the hurdle stood at 45.5p per share.

Under the terms of the agreement, Principal received fees of £0.416m (2017: £0.918m) during the year.

Our Financials

Company Balance Sheet

as at 30 September 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Investments	C5		20,950		26,435
			20,950		26,435
Current assets					
Debtors	C6	8,144		8,775	
Cash		2,568		591	
		10,712		9,366	
Creditors: Amounts falling due within one year	C7	(4,569)		(2,758)	
Net current assets			6,143		6,608
Total assets less current liabilities			27,093		33,043
Creditors: Amounts falling due after one year			–		–
Net assets			27,093		33,043
Capital and reserves					
Share capital	C8		18,334		18,334
Reserves	C8		3,742		3,742
Capital redemption reserve	C8		1,764		1,764
Profit and loss account	C8		3,253		9,203
Shareholders' funds			27,093		33,043

These financial statements were approved by the Board of directors on 9 December 2018 and were signed on its behalf by:

Stephen East
Chairman

The registered number of the Company is 05304743.

Notes to the Company Financial Statements

for the year ended 30 September 2018

C1. Accounting Policies

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2016 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The consolidated financial statements of The Local Shopping REIT plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

There were no judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements, with a significant risk of material adjustment in the next year.

Measurement convention

The financial statements are prepared on the historical cost basis.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
b. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Investments in subsidiaries

These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Judgements and Estimates

In testing for impairment, management assesses the recoverable amount of investments and inter-company debtors by reference to the subsidiaries' net assets and their ability to recover these assets.

Notes to the Company Financial Statements continued

for the year ended 30 September 2018

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

1.19 Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Profit for the Financial Year

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £6.048m (2017: profit £1.143m).

C2. Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report.

All directors of the Company are directors of the Group.

C3. Remuneration of Auditors

The detailed information concerning Auditors' remuneration is shown in note 4 to the Group financial statements.

C4. Staff Numbers, Costs and Share Option Schemes

The detailed information concerning staff numbers, costs and share option schemes is shown in note 4 to the Group financial statements.

C5. Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 30 September 2017	108,605	108,605
Disposals	–	–
At 30 September 2018	**108,605**	**108,605**
Provisions		
At 30 September 2017	82,170	82,170
Impairment charge for year	5,485	5,485
Disposals	–	–
At 30 September 2017	**87,655**	**87,655**
Net book value		
At 30 September 2018	**20,950**	**20,950**
At 30 September 2017	26,435	26,435

An impairment review of the carrying value of the Company's investments in its subsidiary undertakings has been performed. In carrying out this review, the directors had due regard to the nature of the property investments held, which is commensurate with the funding arrangements in place. On the basis of this review, which included a review of the underlying assets of the individual subsidiaries, the directors have written down the value of investments in subsidiary undertakings to their estimated realisable value.

The companies in which the Company's interests at the year-end were more than 20% are as follows:

	Nature of business	Ownership interest*
NOS 4 Limited**	Property investment	100%
NOS 5 Limited**	Property investment	100%
NOS 6 Limited**	Property investment	100%
NOS 7 Limited**	Property investment	100%
Gilfin Property Holdings Limited***	Property investment	100%
LSR Trustee Limited**	EBT Trustee	100%

* All interests are in Ordinary Shares.

** Incorporated in England, registered office: 65 Grosvenor Street, London, W1K 3JH

***Incorporated in Scotland, registered office: No 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA

Our Financials

Notes to the Company Financial Statements continued

for the year ended 30 September 2018

C6. Debtors

	2018 £000	2017 £000
Amounts owed by Group undertakings	**8,116**	8,747
Other debtors	**2**	2
Prepayments	**26**	26
	8,144	8,775

Amounts owed by Group undertakings are interest free and repayable on demand.

C7. Creditors

	2018 £000	2017 £000
Trade creditors	**71**	188
Amounts owed to Group undertakings	**3,757**	2,288
Other taxation and social security	**13**	50
Other creditors	**–**	4
Accruals	**728**	228
	4,569	2,758

Amounts owed to Group undertakings are interest free and repayable on demand.

C8. Reconciliation of Shareholders' Funds

Share Capital

	2018 Ordinary 20p Shares Number 000	2018 Ordinary 20p Shares Amount £000	2017 Ordinary 20p Shares Number 000	2017 Ordinary 20p Shares Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Investment in Own Shares

At 30 September 2018, 9,164,017 shares were held in treasury (2017: 9,164,017).

Statement of Changes in Equity for the year ended 30 September 2018

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2016	18,334	3,742	1,764	10,248	**34,088**
Dividend	–	–	–	–	**–**
Share-based payments		–	–	98	**98**
Loss for the financial year		–	–	(1,143)	**(1,143)**
At 30 September 2017	18,334	3,742	1,764	9,203	**33,043**
Share-based payments		–	–	98	**98**
Loss for the financial year		–	–	(6,048)	**(6,048)**
At 30 September 2018	**18,334**	**3,742**	**1,764**	**3,253**	**27,093**

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 2006.

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 8,822,920 Ordinary 20p Shares.

Dividends

No dividends were paid during the current and previous year.

Supplementary Information

Glossary

Earnings Per Share ("EPS")
EPS is calculated as profit attributable to shareholders divided by the weighted average number of shares in issue in the year.

Equivalent Yield
Equivalent yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on gross values including prospective purchasers' costs (including stamp duty, and agents' and legal fees).

Head Lease
A head lease is a lease under which the Group holds an investment property.

Initial Yield
Initial yield is the annualised net rent generated by a property expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

Market Value
Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Market Rent
Market rent is the estimated amount for which a property should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms, in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Net Asset Value ("NAV") per share
NAV per share is calculated as shareholders' funds divided by the number of shares in issue at the year-end excluding treasury shares.

Real Estate Investment Trust ("REIT")
A REIT is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax. LSR converted to REIT status on 11 May 2007.

Rent Roll
Rent roll is the total contractual annualised rent receivable from the portfolio net of any head rent payments.

Reversionary Yield
Reversionary yield is the annualised net rent that would be generated by a property if it were fully let at market rent expressed as a percentage of the property valuation. In accordance with usual practice the property value is grossed up to include prospective purchasers' costs.

Shareholder Information

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