the Local Shopping REIT plc

Annual Report

for the year ended 30 September 2014

Stock Code: LSR

What we do . . .

The Local Shopping REIT plc ("LSR") is a Real Estate Investment Trust ("REIT") invested in a portfolio principally comprising local shopping assets in urban and suburban centres throughout the UK.

Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or "top-up" shopping. As at 30 September 2014 the Company's directly owned portfolio comprised 387 properties, with over 1,190 letting units.

The Company's strategy is to maximise shareholder value through (inter alia):

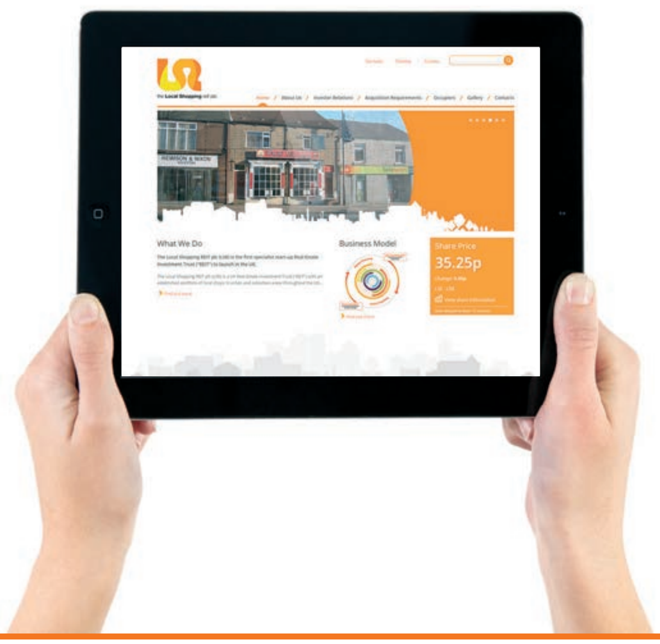
- disposing of its assets progressively in accordance with prevailing market conditions with a view to repaying the Company's existing debt facilities (where consistent with the protection of value) and ultimately returning value to shareholders;
- exploiting the potential of the portfolio through active 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.

For more information see **LSR at a Glance** on pages **02** and **03**

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



Introduction to the 2014 Annual Report

Welcome to the Annual Report of the Local Shopping REIT plc for the year ended 30 September 2014.

During the year the directors and management team worked hard in the execution of the investment policy, adopted by shareholders in July 2013, to sell down the Company's property portfolio whilst maintaining shareholder value. A significant step was achieved during the year with the sale in August 2014 of two of the Company's property holding subsidiaries at an implied property sale price of £79.3m, including the removal of third party fixed rate debt. As a result of this and our individual property sales programme, we significantly reduced our indebtedness, improving our loan-to-value ratio from 75% in 2013 to 56% at the year end. We continue to seek opportunities to further the execution of the investment policy and a number of initiatives are in hand.

The directors consider that, in accordance with the UK Corporate Governance Code 2012, the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. We hope you will find this report informative and helpful.

Stephen East
Chairman

Contents

Strategic Report
02 LSR at a Glance
04 Highlights
05 Investment Policy
06 Performance Review
09 Finance Review
12 Principal Risks
14 Corporate Responsibility

Our Governance
15 Board of Directors
16 Corporate Governance Report
24 Remuneration Report
28 Audit Committee Report
29 Directors' Report

Our Financials
30 Independent Auditors' Report to the Members of The Local Shopping REIT plc
33 Consolidated Income Statement
33 Consolidated Statement of Comprehensive Income
34 Consolidated Balance Sheet
35 Consolidated Statement of Cash Flows
36 Consolidated Statement of Changes in Equity
37 Notes to the Financial Statements
58 Company Balance Sheet

Supplementary Information
63 Glossary of Terms
64 Shareholder Contacts

Strategic Report

At a Glance

Our portfolio was revalued at 30 September 2014 at £87.6m, reflecting an equivalent yield (excluding the residential element) of 9.25%. The portfolio comprised 387 properties, with 1,190 letting units, producing an annual rental income of £7.92m.

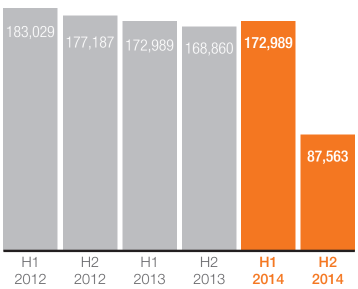
Over the year as a whole, the portfolio Market Rent fell on a like-for-like basis by 2.97%.

Like for like, the portfolio value was broadly unchanged over the period.

Loan-to-value ratio 56.12%, compared with 75.2% in 2013.

Portfolio Value (£000)

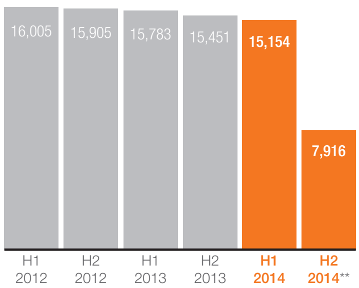
-0.25%*



*like with like

Portfolio Rent (£000)

-0.01%*



*like with like

** decrease due to disposal of significant proportion of portfolio

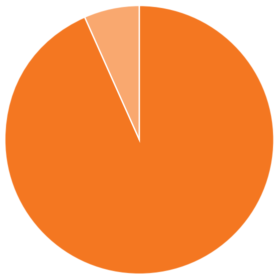
Lease Expiry Profile

As a percentage of Market Rent

39.49%†	0–3 years
18.32%	3–6 years
9.72%	6–9 years
18.89%	9+ years
11.98%	Vacant (commercial)
1.61%	Vacant (residential)

Tenure

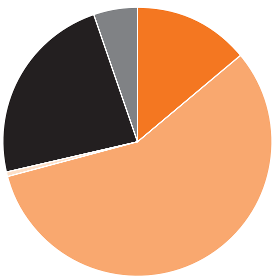
As a percentage of valuation



93.58%	Freehold/virtual freehold
6.42%	Leasehold

Tenant Grade

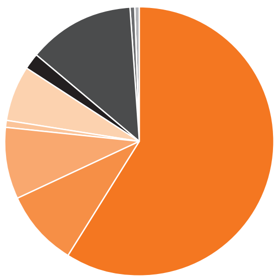
As a percentage of Market Rent



14.02%	Local company
56.97%	Individual
0.43%	Government
23.37%	National multiple
5.21%	Regional multiple

Planning Use

As a percentage of Market Rent



59.58%	A1 Shops
9.39%	A2 Financial
8.68%	A3 Cafés/restaurants
0.79%	A4 Pubs
5.65%	A5 Takeaways
1.90%	B1 Offices
13.04%	C3 Residential
0.42%	D1 Institutional
0.12%	D2 Leisure
0.44%	Miscellaneous

† Including residential AST leases.

Strategic Report

Portfolio construction

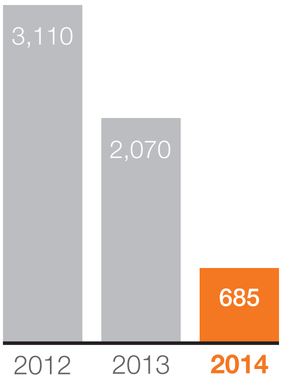
% of portfolio

		Market Rent	Value
1	Scotland	14.30%	13.46%
2	North East	3.49%	3.07%
3	Yorkshire & Humberside	8.18%	7.40%
4	East Midlands	6.33%	6.38%
5	East Anglia	2.03%	1.96%
6	London and South East	19.68%	23.55%
7	South West	13.02%	13.62%
8	Wales	5.18%	4.83%
9	West Midlands	8.96%	8.35%
10	North West	18.85%	17.39%

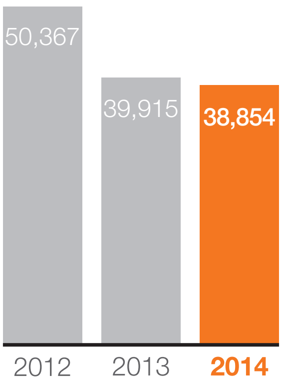
Strategic Report

Highlights

Recurring Profit (£000)



Adjusted Net Asset Value (£000)



- Recurring profit £0.685m or 0.8 pence per share (2013: £2.070m or 2.5 pence per share) with a profit for the financial year of £1.206m or 1.5 pence per share (2013: loss of £6.07m or 7.5p per share).
- Sale of 235 properties held within two subsidiary companies ("Project Minard"), in furtherance of the investment strategy, at an implied property sale price of £79.3m, including the removal of third party fixed rate debt.
- Net Asset Value (NAV) of £34.8m or 42 pence per share (2013: £33.6m or 41p per share).
- Significant reduction in LTV, with total net debt of £49.1m, reflecting an LTV of 56.1% (2013: £127.7m, LTV 75.2%).
- Debt free properties valued at £5.8m.
- Portfolio revalued at 30 September 2014 at £87.6m (2013: £168.9m; like-for-like value £87.8m), reflecting an equivalent yield (excluding the residential element) of 9.25%.
- At 30 September 2014 the portfolio comprised 387 properties, with 1,190 letting units, producing an annual rental income (after deducting head rent payments) of £7.92m.
- In addition to Project Minard, 23 property sales during the year, of which five were sales of flats on long leases, producing an aggregate premium of 17.02% to their preceding valuation of £3.66m.
- Annual rent roll for the residual portfolio of £7.92m, broadly unchanged on like-for-like basis from 2013.
- Market Rent (net of head rents) at 30 September 2014, of £8.56m (2013: £16.90m). On a like-for-like basis, Market Rent reduced by 2.97% from £8.82m.
- Overall void rate 11.94%, equivalent to Market Rent of £1.03m (2013 like-for-like: 12.27%).
- 115 vacant commercial units let during the year at an annual rental income of £1,164,283 per annum (2013: 126 units let at £1,003,840 per annum).
- 83 rent reviews with an aggregate rental uplift of £88,684 (6.5%) above previous passing rent.
- 36 lease renewals secured at a net rental increase of £664 (0.2%), £16,202 (4.8%) above Market Rent.
- Rental deposits held of £467,783 or 23.7% of the quarterly rent roll (2013: £862,000, 22.3%).
- 11 planning consents secured, including 3 for conversions to flats. One flat conversion completed adding £5,400 to rent roll.
- Net cost savings during the year of £0.9m resulting from the 2013 Strategy Review.

Investment Policy

The Company's Directors, together with its investment manager INTERNOS Global Investors Limited, continue to execute the following investment policy, adopted by shareholders in July 2013.

Objectives

The Company's investment objective is to maximise value for its shareholders from its existing portfolio of local real estate assets, comprising local shops in urban and suburban areas, as well as neighbourhood and convenience properties throughout the UK.

The Company seeks to achieve this through:

- Realising its assets progressively in accordance with prevailing market conditions with a view to repaying the Company's existing debt facilities (where consistent with the protection of value) and ultimately returning value to shareholders;
- Exploiting the potential of its remaining property portfolio through active asset management; and
- Making further investments in properties only where such investment is deemed by the Board, in consultation with INTERNOS, to be significant to protect or enhance the realisable value of an existing property asset. In such circumstances the Company may seek to purchase assets intrinsically linked to existing assets in its core local retail portfolio (such as flats situated above local convenience stores in order to exploit marriage value).

The Company has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of the drawdown. The Company intends to reduce its gearing ratio from its current level going forward.

Strategy

The Company seeks to implement its investment policy as follows:

- All property assets will be sold as expeditiously as is consistent with the protection of value, with an initial focus on those properties already optimised for sale and those in markets where the Company has relatively few assets, so as to reduce property management costs. The Company aims to complete the disposal programme within a period of approximately three years.
- Proceeds from the sales of properties will be used to repay the Company's existing debt facilities. The amount the Company will have to pay in respect of termination fees (including crystallisation of any mark to market liability) under its derivative arrangements will be significantly increased or reduced depending on the prevailing interest rates at the time of the repayment of the debt. Accordingly, the Company has not set a prescriptive timetable for the sale of the properties, but has instructed and incentivised INTERNOS to dispose of properties at such a time during the next four years with the intention of aiming to minimise the total break costs payable and ultimately maximise the monies paid to the shareholders.
- As the property assets of the Company are sold, the Board will use cash proceeds in excess of the amount that is required to repay allocated loan amounts and related financing costs either for further debt repayment or for return of capital to the shareholders in accordance with its assessment at that time of what will deliver the best time and risk adjusted returns to shareholders.
- The orderly phasing of property sales over a period of time is a key aspect of this proposal and the new investment policy, firstly in order to protect value and not over-supply this specialist property market at any one time, and secondly to mitigate associated friction costs, and in particular the early repayment of hedging arrangements. Balancing these two factors will be an important part of executing the new investment policy.
- The Company is currently marketing for sale the four remaining active property holding subsidiary companies. The Company's management has under consideration a number of options for the execution of the strategy decided by shareholders including, but not limited to, portfolio sales and will execute sales in a form which best contributes towards shareholder value.
- New property assets will not be acquired unless such an acquisition is deemed by the Board, in consultation with INTERNOS, to be essential to protect or enhance the realisable value of an existing property asset. A corporate transaction, such as the merger or sale of the Company, will be considered, where this offers opportunity to accelerate the realisation of optimal value for shareholders.

Strategic Report

Performance Review

Business Model

Whilst having regard to the orderly disposal of properties in line with the investment strategy, we continue to focus on generating profits from our residual property portfolio, largely comprising local and convenience shopping assets. Core to the achievement of good returns is letting space to reliable tenants at affordable rents and the minimisation of tenancy voids and their associated costs.

We continue to focus on the following principal contributors to the success of our business:

- the talent and commitment of our fund manager and the asset management and financial teams engaged on the portfolio;
- our relationships with national and local advisers and agents; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

Business Review 2013-14

Market Context

The UK economy continued to recover during the year, with gross domestic product growing by 2.9% during the 12 months to 30 September 2014, according to figures from the Office for National Statistics. Comparing favourably with European competitors, this incorporated improved output and increasing employment in both manufacturing and construction, as well as the dominant services sector. However, the rate of expansion slowed during the September quarter, with uncertainty over the Scottish independence vote adding to the usual summer holiday season lull. Some commentators have recently expressed concerns that stagnation in key economies within the Eurozone may soon dampen growth in the UK. With overall wage growth remaining low and the central government deficit remaining to be meaningfully addressed, there appears to be little room for cuts in personal taxation. A significant increase in High Street spending would therefore appear unlikely for the immediate future, although Christmas trading may be assisted by the recent fall in petrol prices.

House prices, supported in part by the Government's 'Help to Buy' scheme, increased apace during the year. This has been particularly apparent in the South East, where a buy-to-let boom and overseas investment activity in the London market have also played a part. The Government has held back on taking measures to mitigate the dangers of house price inflation and mortgage debt, possibly wishing to avoid damaging construction activity outside the South East. It appears likely that the Bank of England's Monetary Policy Committee will maintain interest rates at their current low level until at least mid-2015.

Within the retail sector, headline-grabbing failures of high profile chains were avoided during the year and the sector recovered well from the adverse weather conditions, including severe flooding in some localities, which marked the winter of 2013-14. Figures from the Local Data Company showed a small but consistent decline in retail vacancy rates over the first half of 2014, with voids in June at their lowest level since 2010.

Demand for space continued unabated in central London, with a number of overseas retailers moving into the market for the first time. The Colliers International Autumn Report indicated improvements in rental levels for primary retail locations in Outer London, the North West and East Midlands over 2013, and a stabilisation of recent slides in other regions.

In contrast, the number of profit warnings issued by Stock Exchange-listed retailers increased significantly during the September quarter, perhaps indicative of pressures felt generally within the sector during prior months. Whilst UK retail sales volume at end-September 2014 was up on the previous year by 2.7%, there was a marked slowdown during the month of September. The recent troubles within Tesco have reverberated amongst supermarket retailers, many of whom are also struggling to adapt to changes in shopping habits and the emergence of discount supermarkets. Whilst supermarket operators acknowledge concerns over the profitability of superstores, they continue to seek viable sites for convenience outlets.

Whilst by no means immune to these pressures, independent local retailers in our market sector have shown remarkable resilience and we have seen small but steady signs of improving health during the spring and summer, particularly amongst convenience, services, health & beauty and leisure outlets.

For investors in the sector, demand continued to be most marked for assets located in the South East. Other than in major provincial sectors, investor activity did not pick up materially in regional markets prior to the summer months. Major auction houses are reporting success rates in the order of 75-90%. Purchasers continue to be selective and it appears that the market remains reluctant to adjust to higher purchase yields. The availability of debt finance continues to influence the market. However, stabilising rental levels and the continuing search for yield, together with an increased appetite for risk, may improve provincial investor activity during the coming months.

Operations

At the beginning of the 2013-14 financial year the business had started to engage with the new investment policy adopted by shareholders in July 2013. As well as a change in strategy, this involved the transfer of our asset managers and accounting staff to INTERNOS on its appointment as fund manager. It is to the credit of the INTERNOS management team and the transferring employees that this transition was achieved with no appreciable disruption to business operations.

A major step forward in furtherance of the investment strategy was the disposal of a portfolio of 235 properties by way of the sale of two of our property-holding subsidiaries in August 2014 ("Project Minard"). The implied property sale price, taking account of the removal of third party fixed rate debt, was £79.3m.

In addition to Project Minard, we completed 23 individual property sales during the year. Of these, five were sales of flats on long leases. These individual sales produced an aggregate sales receipts of £4,284,006, a premium of 17.02% to the preceding valuation of £3,661,000.

The effect of these sales was to reduce our gearing at the year end to 56%, from 75% in 2013.

Results and Net Asset Value

On an IFRS basis, the Group recorded a profit for the financial year of £1.21m (2013: IFRS loss of £6.07m). The recurring profit for the year was £0.69m (0.8p per share), compared with a restated recurring profit of £2.07m (2.5p per share) in 2013. A reconciliation of the recurring profit to the loss before tax in the Income Statement is given in the Financial Review section, below.

The net asset value of the Group increased over the year by £1.21m to £34.83m. This equates to an NAV per share of 42 pence (30 September 2013: 41 pence). The NAV per share adjusted for the fair value of interest rate swap contracts was 47 pence at 30 September 2014 (2013: 48 pence). This figure does not take account of adjustments which may arise on disposal of the remainder of the Company's investment property assets, including accelerated amortisation of certain balance sheet items and professional fees.

Portfolio Performance and Asset Management

Portfolio Summary

Value	£87.6m
Initial Yield	8.82%
Reversionary Yield	9.48%
Equivalent Yield*	9.25%
Rent p.a.	£7.92m
Market Rent	£8.56m

Our investment property portfolio was re-valued at 30 September 2014 at £87,563,250. This reflected an equivalent yield (excluding the residential element) of 9.25%. The portfolio comprised 387 properties, with 1,190 letting units, producing an annual rental income, net of head rent payments, of £7.92m.

On a like-for-like basis the portfolio valuation decreased by 0.25% from £87.8m.

* excluding residential element

Range of values within the portfolio

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0–100k	146	10,055,750	10.31%
£101k–£200k	124	17,102,500	9.63%
£201k–£500k	88	27,630,000	9.57%
£501k–£1m	19	14,505,000	9.09%
£1m–£3m	8	11,845,000	8.12%
£3m +	2	6,425,000	7.51%
Total	387	87,563,250	9.25%

Like-for-like portfolio — adjusted for sales

	30 September 2014	30 September 2013	Change
Value	**£87.6m**	£87.8m	-0.25%
Initial Yield*	**8.82%**	8.38%	+44bps
Reversionary Yield*	**9.48%**	9.71%	-23bps
Equivalent Yield*	**9.25%**	9.39%	-14bps
Rent p.a.	**£7.9m**	£7.9m	-0.01%
Market Rent p.a.	**£8.6m**	£8.8m	-2.97%

* excluding residential element

Strategic Report

Performance Review

Values by Region

	% of portfolio value	Valuation movement
Scotland	13.46%	-5.12%
North East	3.07%	+0.75%
Yorkshire & Humberside	7.40%	-3.34%
East Midlands	6.38%	+2.15%
East Anglia	1.96%	-0.15%
London & South East	23.55%	+7.29%
South West	13.62%	+2.22%
Wales	4.83%	-0.53%
West Midlands	8.35%	-2.99%
North West	17.39%	-5.59%

The aggregate Market Rent for the portfolio at 30 September 2014, net of head rent payments, was £8,564,474 (2013: £16,896,962). The principal reason for the fall in Market Rent was the disposal of properties during the year. On a like-for-like basis, the portfolio Market Rent fell by 2.97% from £8,818,932 at 30 September 2013.

Whilst the country's general economic activity began to pick up during the year, conditions for retailers continue to be challenging in many regions. This has influenced both portfolio rental income and the vacancy rate. The combined Market Rent of vacant properties at the year-end was £1,030,636 or 11.94% of aggregate portfolio Market Rent, an improvement on the like-with-like 2013 void rate of 12.27%. Within this, commercial properties accounted for £908,580 and residential units were £122,056. The portfolio void rate reflects our balanced policy of taking possession early where tenants are in financial difficulty, enabling re-marketing of vacant properties and alleviating bad debts. We do not distinguish between assets deliberately held vacant and other vacant properties.

Our asset managers continued to exploit opportunities for improving portfolio returns during the year, from new lettings, rent reviews and lease renewals. The details of these given below include both the ongoing portfolio and the elements disposed of in August 2014 via Project Minard, the proceeds of which reflected previous asset management activities.

Our flexible approach to leasing, taking account of local factors, continued to serve us well during the year, enabling the letting of 115 vacant commercial units at a total rent of £1,164,283 per annum (2012-13: 116 lettings at £1,003,840). Overall, these units were let at 1.9% below Market Rent. Regarding tenant incentives, we maintained our policy of preferring stepped rents to offering lengthy rent-free periods. The average rent free period on new leases starting during the year within the continuing portfolio was 32 days (2013: 67 days). At the year-end the aggregate rent within the letting pipeline was £175,700 per annum.

We completed rent reviews on 83 units during the year, increasing rental income by a total of £88,684 per annum. These produced an average uplift of 6.5% over the previous passing rent and 9.7% above Market Rent.

Lease renewals were carried out on 36 units, resulting in a small net rental increase of £664 (0.2%), an average increase of 4.8% on Market Rent.

We continue to seek rent deposits of between three to six months on the letting of units. The total value of deposits held at 30 September 2014 was approximately £469,783 or 27.76% of our quarterly rent roll (2013: 23.74%), providing a measure of protection against tenant default.

During the year we completed the conversion of one redundant upper parts unit to a residential flat. This was subsequently let, adding £5,400 to the annual rent roll. A further conversion of redundant upper parts, to form two flats, was underway at the year-end. During the year we secured planning consents for 3 flats and 8 further changes of use.

Acquisitions and Sales

The new investment policy, adopted in July 2013, focuses on the orderly selling down of our property portfolio. Accordingly, we do not plan to acquire properties unless to do so contributes to the achievement of the overall sales strategy. We did not in any case acquire any new properties during 2013-14 and none have been acquired since the year end.

Under Project Minard, we disposed of 235 properties at an implied property sale price, taking account of the removal of third party debt, of £79.3m. In addition, we completed 23 individual property sales during the year, producing an aggregate sales income of £4.3m, a premium of 17.02% to the preceding valuation of £3.7m.

Since the year end we completed the sale of six properties at an aggregate price of £1.50m.

Joint Ventures

During the year, the Company continued to hold an investment in a small joint venture with an established UK financial institution. The properties held by the joint venture were sold shortly before the year end and the joint venture has recently entered members' voluntary liquidation.

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.

Results

The Group has recorded an IFRS profit for the financial year of £1.21m (2013: loss £6.07m). The principal reasons for the improved IFRS result were:

- the reduction in administrative expenses during the year, which moved from £4.5m to £2.2m; and
- a reduction in the diminution of the fair value of the property portfolio which was £0.5m over the year, compared with £8.8m in 2013.

Key Performance Indicators

The following financial key performance indicators are monitored by the directors to review the performance of the business, in addition to the specific measures described in the Business Review which are used to monitor the performance of the property portfolio.

	30 September 2014	30 September 2013
Interest cover*	183%	184%
Loan to value (LTV) ratio†	56.1%	75.2%
Adjusted NAV per share‡	47p§	48p§
Gearing (net of cash held)	141%	380%
Recurring profit per share‡	0.83p	2.5p

* Based on rental income compared to interest payable
† Net of cash held
‡ Based on 82,505,853 shares in issue at 30 September 2014 (2013: 82,505,853)
§ Adjusted to exclude the fair value of financial derivatives

Recurring Profit

The recurring profit for the year was £0.69m (2013: £2.07m), the calculation of which remains consistent with previous years. A reconciliation of the loss before tax to the recurring profit, including the effect of discontinued operations, is as follows:

	30 September 2014	30 September 2013
Profit/(loss) before tax	1,206	(6,071)
Profit on discontinued operations	–	(345)
Profit (loss) before tax on continuing operations	1,206	(6,416)
Movement in fair value of the portfolio	496	8,778
Movement in the fair value of the interest rate swaps held	(2,267)	(2,753)
Profit on sale of investment properties	(475)	(114)
Loss on sale of shares	1,312	–
Non-recurring income	–	(75)
Non-recurring expenditure and net resolution of aged balances	413	2,519
Non-recurring income and expenditure incurred by joint ventures	–	131

	30 September 2014	30 September 2013
Recurring profit on continuing operations	685	2,070

The recurring profit per share for the year was 0.8 pence (2013: 2.5 pence). In accordance with the dividend distribution policy adopted by the Board in 2013, no dividend will be paid for the year (2013: nil).

Strategic Report

Finance Review

Significant factors in the reduction of recurring profit were:

- the sharp reduction in income during the last two months of the year, following the sale of 235 properties via Project Minard, together with other property sales during the year;
- an increase in property repair and maintenance costs arising from severe weather conditions in many parts of the country during the winter of 2013-14;
- as noted in the half-year report, the impact on operating expenses of the immediate imposition of Business Rates on vacant properties;
- the continuation, in the first half of the year, of the rigorous review of significantly aged bad debts instigated in 2012-13 (as reported at the half year).

As envisaged in the 2013 Annual Report, the level of administrative expenses fell during the year as a result of the cost savings achieved following the Strategic Review carried out in 2013. Reductions in staff costs and the disposal of the lease of the Company's former offices resulted in annualised cost savings of £2.05m, producing a saving net of fees paid to INTERNOS of £0.909m.

Net Assets

The net assets of the Group were £34.8m at the year end (2013: £33.6m).

During the year, further investment was made in refurbishing properties to improve prospects for letting and retaining existing tenants, as well as to comply with regulatory requirements.

The Group's revaluation policy remains unchanged. At the half year and year end, 25% of the portfolio, plus all properties purchased in these two six-month periods (2014: none), are valued by Allsop LLP, a firm of Chartered Surveyors, acting as external valuers, who are experienced in property types held by the Group. The remainder of the portfolio is valued on the basis of Market Value by the directors who have relevant experience and professional qualifications with the benefit of outline advice provided by Allsop LLP.

Joint Ventures and Investments

Investments in joint ventures continue to be equity accounted for during the period of the Group's ownership. During the year the Group continued to hold an interest in the small property joint venture with a financial institution. At the year end the Group had invested £0.29m in this joint venture, following the repayment of the Group's shareholder loan of £0.21m. Following the year end, the joint venture's remaining properties were sold, following which it entered members' voluntary liquidation.

Banking Facilities

During the year the Group operated using the following facilities:

Loan	Facility £m	LTV Covenant	Amortisation	Termination Date
Indus (Eclipse 2007-1) plc*	69.2m	None	£300k per quarter held in amortisation escrow account	16 January 2017
HSBC – Term Loan 1	45.7m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
HSBC – Term Loan 2	19.4m	91.5% – NOS 4/6 combined	1.8% pa of outstanding loan	30 April 2018
Total HSBC Term Loans	65.1m			

* The facility provided by Indus (Eclipse 2007-1) was attached to the two subsidiary companies sold in August 2014 and did not form part of the Group's banking facilities at the year end.

At 30 September 2014 the total debt outstanding was £65.1m (2013: £134.9m).

The facility provided by Indus (Eclipse 2007-1) plc was attached to the subsidiary companies disposed of under Project Minard on 7 August 2014 and has not formed part of the Group's facilities since then. Up to that date the Group had been making amortisation payments of £300,000 per quarter into an account over which the lender's agent had sole signing rights.

The two HSBC Term Loans were both fully drawn at the year-end. These facilities are subject to the following conditions:

Cross-collateralisation, with each facility providing security for the other. Whilst providing the bank with a more diversified security pool, this allows the Group to sell assets held by either subsidiary without triggering hedge break costs.

The financial covenants on both facilities are tested on a consolidated basis, with total loan to value ratios not to exceed 91.5%, and total projected and current interest cover ratios not to fall below 120%. As at the 31 July 2014 interest payment date the total loan to value ratio was 76.8% and the interest cover was 158.3%.

The repayment date for both facilities is 30 April 2018.

A fixed margin of 2% applies to both facilities. An additional margin will accrue from 1 January 2015 and become payable on repayment of the loans (this accrues at the rate of 1% per annum from 1 January 2015, 1.5 % from 1 January 2016 and then 2% thereafter from 1 January 2017).

Amortisation instalments are paid on each interest payment date, calculated as being 0.45% of the loan balances on each interest payment date.

All of the loans have actual and forecast interest cover tests which must be complied with under the terms of the facilities. The interest cover is tested at various times throughout the year and, at each testing date each loan was determined to be compliant. The level of the interest cover ratio ("ICR") required by each loan is listed below (each loan reporting period includes an actual and forecast ratio).

Loan	Actual ICR Covenant	Actual ICR – Qtr ending 30/9/2014	Forecast ICR Covenant	Forecast ICR – Qtr ending 30/9/2014
HSBC – Term Loan 1	120%	158.3%	120%	153.4%
HSBC – Term Loan 2	120%	158.3%	120%	153.4%

At the year end the Group held properties with a total value of approximately £5.8m, with no debt drawn against them. These assets, together with the cash balances held by the Group, provide the Group with considerable flexibility.

Taxation

The Group continued to operate as a REIT throughout the year. Accordingly, any profits and gains from the property investment business should be exempt from Corporation Tax provided certain conditions continue to be met.

Dividend

As announced during 2013 the Board is not recommending the payment of dividends for the time being. Accordingly, no dividend will be paid in respect of the year. The Board's current dividend policy takes account of the cash flow requirements of the business alongside the decision not to extend future borrowings. The Company has received advice that, for the time being, this will not affect the Company's REIT status. The Board will continue to keep the dividend policy under review.

Strategic Report

Principal Risks

The directors recognise that no commercial reward comes without some element of risk. In determining the principal risks to which the business is exposed, the directors recognise that a number of these, such as the condition of the UK domestic economy, are external and beyond the Company's power to influence. However, such risk areas are monitored and appropriate mitigating action, such as reviewing investment programmes, is taken in response. 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 revised 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 non-executive directors 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	• 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	• Costs not matched by income streams and/or improvement in property value	• All material expenditure authorised by asset manager and director • Capital expenditure subject to regular review • Focus on sale of assets with high potential capital expenditure
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

Potential Risk	Impact	Mitigation
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	• Managing agents and professional advisers provide guidance on regulatory requirements • Asset managers and agents monitor individual properties • Managing agents operate formal regulatory certification process for residential accommodation • Ongoing programme of risk assessments for key multi-tenanted sites • Insurance policies cover key risks
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	• INTERNOS has effective security regime with off-site data 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 • Disposal programme aimed at lowering loan finance risks • Appropriate level of hedging in place • Impact of interest rates on property yields monitored and investment/ disposal policy adjusted accordingly

Strategic Report

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 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 previous asset management and accounts team transferred to INTERNOS in July 2013 and continue to work on our portfolio, as do our previous network of national and local agents and contractors. Our business model continues to leverage this network and our ability to operate successfully is accordingly largely dependent on maintaining our reputation for integrity and a straightforward and honest approach conducting business. We therefore strive to behave and transact business in accordance with the highest professional standards, and we look to those who act on our behalf do the same. Besides complying with all relevant legislation and professional guidelines, this includes customer care and external complaint procedures. Our arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures.

Having considered relevant human rights issues, we do not believe that the provision of detailed information in this area is relevant to the understanding of the performance and position of the business. We remain 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

Following the strategic review in July 2013 the Company's remaining members of staff transferred to INTERNOS and the Company therefore had no employees during the year.

Health, Safety and Welfare

We are pleased to report that the priority which we accorded to the health, safety and welfare of our employees continues to be applied by INTERNOS. Our property managers and contractors continue to be required to ensure that maintenance and construction activities conform to relevant regulations and that due consideration is given to the welfare of occupants and neighbours. Our managing agents, instructed by INTERNOS, 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, together with a continuing programme of risk assessments covering relevant multi-occupancy sites.

Community and Partnerships

Although the business is in disinvestment phase the well-being of the communities in which our assets are located remains vital to our interests. We therefore continue to take seriously our responsibilities as an owner of local property assets serving their community and we will seek to deal constructively with all stakeholders. We remain proud of our adviser network and continue to support local agents and contractors wherever possible.

Environment

Our business model and investment policy is by its nature supportive of reducing the carbon impact of retail shopping. Our shops are within easy distance of their customers' homes or workplaces. Our development activity focuses on the return to profitable use of space that would otherwise remain vacant, including the conversion of redundant upper parts in shopping locations. We believe that such development is likely to rejuvenate existing locations whilst alleviating development pressure elsewhere, including on greenfield sites. Construction is carried out in accordance with applicable energy and resource saving standards and noise impact reduction requirements, and, wherever possible, we use local agents and contractors. Our contractors are required to dispose of waste in accordance with best practice. We are pleased to note that our fund manager, INTERNOS, has appropriate energy reduction and recycling arrangements in place in its offices.

Stephen East
Chairman
17 December 2014

Board of Directors

Stephen East
Independent Non-Executive Chairman, aged 56

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

Steve Faber
Executive Director, aged 40

As Head of UK Investment Management at INTERNOS, Steve holds primary responsibility for executing the agreement between the Company and INTERNOS for the management of LSR's investment property portfolio in accordance with the Company's investment strategy. Steve is a Chartered Surveyor with 18 years' experience gained across all UK Market sectors. Having started his career with Tesco Stores PLC where he had a UK-wide remit dealing with operational and investment properties, he later joined Land Securities Trillium where he advised the Government and the BBC on occupation strategies. Steve then became Director and Head of UK Asset Management at Deutsche Bank's alternative investment manager RREEF, responsible for real estate in excess of £2bn in a role encompassing full life cycle ownership of assets. Steve holds FCA authorisation as an Investment Manager.

Nicholas Vetch
Senior Independent Non-Executive Director, aged 52

Having trained as a Chartered Surveyor, Nick Vetch became 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 is also a non-executive director of Blue Self Storage SL, which operates in Spain. Following Stephen East's appointment as Chairman of the Company, Nick took over as Chairman of the Audit Committee. He also serves on the Remuneration Committee.

Grahame Whateley
Independent Non-Executive Chairman, aged 71

Left October 2014

Grahame Whateley left the Board following the year-end, having chaired the Board since January 2005. During the year he served on the Remuneration and Nomination Committees.

William Heaney
Company Secretary

Corporate Governance Report

The Company is subject to, and complies with, the Listing Rules and the Disclosure & Transparency Rules of the Financial Conduct Authority. The Company is also subject to the UK Corporate Governance Code ("the Code") promulgated by the Financial Reporting Council. The 2012 edition of the Code applied to the Company during the year. However, the Directors are now looking to implement the revised requirements of the latest version of the Code, applicable from October 2014. 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 investment decisions are taken by the Board as a whole and 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. Six meetings were held during the year. Each 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 well-being and progress. These include portfolio performance, acquisitions and sales, asset management, investment in joint ventures as well as finance, business development 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.

During the year the relevant executives of the Company's fund manager, INTERNOS to whom day-to-day operational management was delegated, consulted the non-executive directors on a regular basis outside normal Board meetings. The non-executive directors also make themselves available to provide advice to the management team. The non-executive directors hold meetings and discussions in the absence of the executive team.

The division of responsibilities between executive team and the non-executive directors is clearly defined and recorded via the Company's investment advisory agreement with INTERNOS. The Chairman is charged with responsibility for corporate governance and effective leadership of the Board and INTERNOS, through the Company's executive director, Steve Faber, is responsible to the Board for the executive management of the business. 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 duties. 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, including their membership of the Board's committees, are set out on page 15. All the directors listed held office throughout the year to 30 September 2014. The Board comprised an independent Chairman, two further independent non-executive directors (including the senior independent non-executive director) and one executive director. Non-executive directors were therefore in the majority throughout the period.

Having considered the criteria set out in the Code and the character and attributes of each individual, the Board considers each of the non-executive directors to be independent within the spirit of the Code and that no individual or group can dominate decision-making.

The Company was chaired by Grahame Whateley throughout the year. Mr Whateley, who had served as Chairman since 2005, left the Board following the year end.

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, in 2012 the directors adopted the best-practice policy of each director resigning and standing 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 2014 Annual General Meeting, when all directors then holding office 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 Nomination Committee comprises three directors, the majority of whom are 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 Board's policy is for candidates to be interviewed separately by executive and non-executive directors. 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.

Audit Committee

During the year the Audit Committee was chaired by Stephen East and its other member was Nick Vetch, both of whom are independent non-executive directors. The Board considered Mr East to have the requisite skills and experience to chair the Committee. The Company Secretary acts as secretary to the Committee. The report of the Audit Committee can be found on page 28.

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

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 executive directors and members of the management team. KPMG LLP have provided the directors with written confirmation of their independence.

Following Stephen East's appointment as Chairman of the Company in October 2014, Nick Vetch succeeded him as Chairman of the Audit Committee.

Corporate Governance Report

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Remuneration Report at page 20. The Committee did not meet during the year.

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

Director	Board	Audit	Remuneration	Nomination
Stephen East	6	4	–	–
Steve Faber	6	–	–	–
Nick Vetch	6	4	–	–
Grahame Whateley*	6	–	–	–

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

During the year:

1. No director had any material interest in any contract or arrangement with any company within the Group; and
2. Save for the contingent interests of participants in the Company's Long Term Incentive Plan in shares in the Company held by LSR Trustee Limited, no director had any beneficial interest in any subsidiaries of the Company.

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	**2014**	2013
Stephen East	**75,000**	75,000
Steve Faber	**3,574**	–
Nicholas Vetch	**2,873,563**	2,873,563
Grahame Whateley*	**8,097,376**	7,655,171

*Left 16 October 2014

None of the Directors have any interest in employee share schemes.

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

The non-executive directors provide feedback on the performance of the executive team, including the executive director within the terms of the investment advisory agreement with INTERNOS.

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 make arrangements for directors to inspect investment properties.

Internal Governance Policies

The directors 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 complying with the requirements of the Model Code, Anti-money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. The Company's arrangements with INTERNOS, which is regulated by the Financial Conduct Authority, include the provision of all applicable compliance procedures. This 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.

Internal Controls

The Board has overall responsibility for the Company's internal control systems 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. Having regard to the Company's size, the establishment of a separate internal audit function has not been considered appropriate. 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 pages 12 and 13.

The principal foundations of the Company's internal control framework are:

- statements of areas of responsibility reserved to the Board and its committees, with prescribed limits to executive directors' 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 INTERNOS;
- 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 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 the continuing effectiveness of the Company's hedging arrangements; and
- quarterly reporting to the Board of health, safety and environmental matters.

These now supersede the arrangements relating to employees and internal procedures. The Board is satisfied that the internal control arrangements established by INTERNOS in respect of the Company's business are appropriate.

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, taking into account the findings and recommendations of the Auditors. Following its review of the Auditors' findings during 2014 and its examination of the control framework established by INTERNOS the Board considers that the Company's approach is acceptable.

Corporate Governance Report

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 these meetings, as well as regular commentary from investors and the Company's bankers and advisers. The Board provides interim management reports and other announcements 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.

Acquisitions and Disposals

During the year the Group disposed of its property-holding subsidiaries NOS 2 Limited and NOS 3 Limited for a cash consideration of £11.1m, subject to final adjustment. The two subsidiary companies owned 235 properties and the transaction represented an implied property sale price of £79.3m, with the subsidiaries taking with them third party fixed rate debt of £66.7m.

The Group made no material acquisitions during the year.

Group Companies

The subsidiary undertakings of the Company are set out in note 24 to the financial statements.

Group Result and Dividend

The profit for the Group attributable to shareholders for the year was £1.21m (2013: loss of £6.1m). The recurring profit for the year was 0.8p per share (2013: 2.5p). The definition of recurring profit is set out in the glossary of terms at the end of the Report.

In accordance with the revised investment policy, no interim dividend has been or will be distributed in respect of the financial year. The directors will keep the dividend distribution policy under review.

Use of financial instruments

The Company's use of financial instruments to reduce its exposure to risks arising from interest rate fluctuations is described in notes 19 and 20 to the financial statements.

Share Capital

Details of the Company's issued share capital are set out in note 16 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. 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 Company's previous authority to purchase its own shares was extended at the Annual General Meeting in March 2014, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury). This authority expires at the 2015 Annual General Meeting, at which a resolution will be proposed for its renewal. The directors exercise their authority to purchase the Company's shares only when they consider it in the Company's best interests to do so. 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 2 December 2014, 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:

	Ordinary Shares	%
New Solera Holdings	24,672,759	29.90
Thames River Capital	9,204,324	11.15
J G Whateley	8,097,376	9.82
Schroders Plc	6,226,900	7.54
AXA Framlington	5,300,000	6.42
Deutsche Asset & Wealth Management	3,616,928	4.38
N J Vetch	2,873,563	3.48
Mark Begg Asset Management	2,484,040	3.01

Effect of change of control on significant contracts

Funding agreements entered into by certain Group companies require the written approval of the relevant bank before any change can be made 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 which are considered to be standard for such schemes.

Key Contracts

With effect from 22 July 2013 the Group appointed INTERNOS Global Investors Limited ("INTERNOS") to execute the Group's new 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 INTERNOS, including remuneration arrangements, are contained in note 26 to the financial statements.

The loan and banking facility agreements with Indus (Eclipse 2007-1) plc (an affiliate of Barclays Bank plc) no longer applied to the Group following the sale of the NOS 2 Limited and NOS 3 Limited subsidiaries in August 2014. Details of the Group's continuing loan and banking facility agreements with HSBC Bank plc are set out in the Banking Facilities section of the Finance Review.

Corporate Governance Report

Carbon Reporting

Scope

The Company disposed of the majority of its interests in joint ventures, as well as its asset management activities for joint ventures and third parties, prior to the financial year and the assets of the Company's remaining joint venture interest were sold during the year. The Company also relocated its headquarters activities to the office of INTERNOS prior to the year. Accordingly we will report only on data related to its activities of investing in and managing our core property portfolio.

We believe that our outsourced business model, employing some 50 firms of local agents and advisers and preferring small local contractors to national organisations, is inherently environmentally friendly. It is, however, impracticable to collect energy consumption data from such businesses, or from our national agents and advisers, in relation to the proportion of their work devoted to the Company's activities. It is also not possible to measure the energy consumed by the Company's tenants (nor is this consumption within the Company's control). 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 INTERNOS in relation to the Company's business;
- shared facilities provided by the Company within its property portfolio;
- activities within vacant properties.

Carbon Emissions Data

In relation to Scope 1 (gas and fuel) our consumption of gas prior to the financial year was minimal, being our share of the gas consumed in heating in the Company's former office. Our office closed in July 2013 and it is not practicable to identify the gas consumed on our activities within the INTERNOS office. The data supplied therefore relates entirely to fuel consumed on journeys between property sites. As we do not have a company car fleet, all such journeys are made in employees' private vehicles. We have assessed vehicles used against the categories given on the DEFRA website. The use of hire cars and air flights has been minimal. The Scope 1 figures show a significant reduction, which is related to the change in the Company's investment policy and the disposal of a significant number of properties during the year, as well as the reduction in the number of staff engaged on managing the portfolio.

Besides an estimate (on a per desk basis) of the energy consumed in relation to our activities within the London office of INTERNOS, the Scope 2 figures include consumption in our vacant properties for which we are responsible. This includes any electricity used in relation to development work in the conversion or remodelling of premises. The figures also include standing charges for electricity connections in vacant properties which the Company takes responsibility. Given the granularity of the Company's property portfolio it has not been practicable to separate this element from the amount of electricity actually consumed.

Our direct usage and emissions of water is minimal, being largely confined to hygiene and refreshment purposes within the INTERNOS 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. However, this largely relates to standing charges and consumption is negligible.

The data has been compiled using the software tools available on the DEFRA website.

	2014 Kg CO_2e	**Kg CO_2e per £1m t/o**	2013 Kg CO_2e	Kg CO_2e per £1m t/o
Scope 1 (gas and fuel)	**3,806**	**275**	8,292	566.05
Scope 2 (electricity)	**16,065**	**1,160**	206,734	14,112.50
Total gross emissions	**19,871**		215,026	

Employee Share Schemes

During the year the Company operated the following employee share schemes:

The Local Shopping REIT plc Company Share Option Plan ("CSOP"); and

The Local Shopping REIT plc Long Term Incentive Plan ("LTIP").

Details of these schemes are set out in the Remuneration Report on page 24.

The Company's Employee Benefit Trust operates to supply shares as appropriate to meet obligations arising from employee share schemes. The voting rights of shares held by the Employee Benefit Trust are identical to the remainder of the Company's issued share capital. Following the year-end the Company put in place a share-based retention and incentive plan, related to the execution of the investment strategy, for members of the asset management team eligible to participate in such arrangements under the terms of the Employee Benefit Trust. This is a short-term arrangement, expiring on 30 September 2015.

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 (2013: 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

The Company's Auditors, KPMG LLP, will resign at the conclusion of the forthcoming Annual General Meeting, at which a resolution for their re-appointment will be proposed.

Going Concern

The directors have considered carefully whether it is appropriate to prepare the financial statements on a going concern basis. The diversity of the tenant base across retail sectors and its geographical spread around the country demonstrates no reliance on one significant tenant. The loan facilities, together with the attached covenants, are detailed in this document. All covenants have been met throughout the year. The directors have prepared profit and cashflow forecasts for the period to 30 September 2018 which include assumptions relating to the orderly sale of properties under the current investment strategy which the directors consider to be reasonable. These forecasts project the Company's funding needs will be comfortably met by its existing banking facility agreements without any breach of related covenants over the remaining life of the facilities which expire in April 2018.

On the basis of these projections the directors consider that the Group will continue to be compliant with its banking covenants and sufficient resources will be available to enable it to continue as a going concern for at least the next 12 months. The directors note that a number of other viable alternative strategies remain available to the Company and they will continue to evaluate whether to continue with its current investment policy or to change to one of these viable alternative strategies. The directors recognise the relevance of the Group's investment policy in this context. They recognise also the inherent uncertainty regarding the timing and manner of the execution of the policy. Accordingly, the financial statements have been prepared on the going concern basis.

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.

Remuneration Report

Committee Chairman's Statement

This report needs to be considered bearing in mind that the Company's previous executive team and some other employees left the business prior to the start of the financial year and at the same time the Company's asset management and accounting staff transferred to INTERNOS. In consequence the Company had no employees at any time during the year.

The Remuneration Committee ("the Committee") continued to oversee the Company's long term share-related performance plans (the Long Term Incentive Plan and the Company Share Option Plan) during the year, particularly bearing in mind that some participatory rights under the Company Share Option Plan continued to exist for a period during the year. All rights relating to awards made to former employees under the Long Term Incentive Plan lapsed at 30 September 2013. Rights relating to awards previously made under the Company Share Option Plan lapsed during the year.

During the year the 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 independent non-executive directors. The following directors served on the Committee during the year:

Nick Vetch (Committee Chairman);
Stephen East; and
Grahame Whateley (left 16 October 2014).

Biographical details of the members of the Committee are set out on page 15. The Committee did not meet during the year.

Other than the Company Secretary, who serves as secretary to the Committee, other directors or executives attend meetings of the Committee only by invitation. The Committee has access to independent advice from New Bridge Street, remuneration consultants. New Bridge Street is part of Aon Hewitt Limited, which does not provide any other services to the Group.

Remuneration Policy

The Company's remuneration policy, which would apply should the Company make relevant appointments in the future, has been 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.

Salary and Benefit Mix

The Committee has aimed to reflect these principles in the mix of basic pay, benefits, annual and long-term awards contained in the remuneration packages adopted for the executive directors and senior managers. Base pay and other fixed remuneration has been set at less than the median for companies in the FTSE real estate sector, with total remuneration including performance-based awards being aimed at between the median and upper quartile relative to the sector. The Company has also provided pension, healthcare and insurance benefits where appropriate in relation to market norms.

It has been the Company's policy to use long-term share-based incentive schemes to incentivise employees to contribute to the success of the business. The Company has established two schemes, the Long Term Incentive Plan ("LTIP") and the Employee Share Option Plan ("CSOP"), described below, for this purpose. As the Company no longer has any directly-engaged employees, its previous employee remuneration arrangements no longer apply. However, the independent non-executive directors engage with INTERNOS with the aim of ensuring that those working on the Company's portfolio, including the Company's former employees, are appropriately incentivised. Since the year-end the Committee has put in place a share-based retention and incentive plan, related to the execution of the investment strategy, for members of the asset management team eligible to participate in such arrangements under the terms of the Employee Benefit Trust. This is a short-term arrangement, expiring on 30 September 2015.

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, in recognition of 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. 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 not to be capable of termination by the Company at not more than one year's notice.

See Table 2 on page 27.

Non-Executive Pay

The Company's policy is for the level of non-executive pay to be reviewed at least every three years by the Chairman and the executive directors. In view of the changed circumstances, future reviews of non-executive remuneration will be conducted by independent consultants commissioned by the Company Secretary. The level of non-executive pay has not changed since the Company's flotation in May 2007. Consideration was given to conducting such a review following the AGM in March 2014. However, the non-executive directors considered it appropriate to postpone the review to 2015-16.

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 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.

Remuneration Report

Shareholder Approval
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 Annual General Meeting in March 2015.

Remuneration Implementation Report
This section sets out the ways in which the Company applied its remuneration policy during 2013-14.

As the Company employed no executive directors during the year (Steve Faber being an employee of INTERNOS), this report does not refer to executive pay and benefits.

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 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 2014 Annual General Meeting shareholders passed separate resolutions approving the Remuneration Policy and the Remuneration Implementation Report for 2012-13, with no votes against at the meeting and proxy votes for each resolution showing a majority of 99.95% of votes cast.

Directors' Contracts and Terms of Appointment
Grahame Whateley, who left the Board on 16 October 2014, had an appointment document dated 30 March 2007, subject to annual extensions. 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. Steve Faber is an employee of INTERNOS Global Investors Limited.

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.

Investor Commentary

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

Save as indicated below, the remainder of this report has been audited.

Table 1: Directors' Total Remuneration 2013-14

Director	Salary	Short term incentives	Long term incentives	Pension contributions	Benefits in kind	Total
Non-executive directors						
Stephen East	30,000	–	–	–	–	30,000
Nick Vetch	30,000	–	–	–	–	30,000
Grahame Whateley*	50,000	–	–	–	–	50,000
Executive directors						
Steve Faber	–	–	–	–	–	–
Total	110,000	–	–	–	–	110,000

The figures in the above table were unchanged from 2012-13.

Table 2: Directors' Service Contracts

	Date of appointment as director	Date of current appointment letter	Expiry of term
Non-executive directors			
Director			
Stephen East	10 September 2009	9 September 2014	9 September 2015
Nick Vetch	30 March 2007	30 March 2014	29 March 2015
Grahame Whateley*	20 September 2004	30 March 2014	29 March 2015
Executive directors			
Director	**Date of contract**	**Notice period**	
Steve Faber	Not applicable	Not applicable	

Table 3: Directors' Interests in the Company's Shares

	Ordinary 20p Shares	
Director	2014	2013
Stephen East	75,000	75,000
Steve Faber	3,574	–
Nicholas Vetch	2,873,563	2,873,563
Grahame Whateley*	8,097,376	7,655,171

*Left 16 October 2014

Nicholas Vetch
Remuneration Committee Chairman
17 December 2014

The foregoing reports were approved by the directors on 17 December 2014.

William A Heaney
Company Secretary

Audit Committee Report

The Committee met four times during the year and each member's attendance record is set out in the table on page 18.

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

The Committee considered the valuation provided by Allsop LLP ("Allsop") together with the internal directors' valuation and the methodology adopted in both cases. As in previous years Allsop carried out an independent "red book" valuation on 25% of the investment property portfolio in March and a further 25% in September. Allsop also provided guidance regarding the internal directors' valuation. We took comfort from the consistency of approach between the Allsop valuation and the directors'.

Going Concern Assumption

Consideration was given to technical implications for the Going Concern assumption in connection with the new investment policy, the sale during the year, in furtherance of the investment policy, of a large element of the Company's investment properties and ongoing initiatives for the execution of the investment policy. In concluding that it was appropriate for the Going Concern assumption to apply, the Committee noted the inherent uncertainty regarding the timing and manner of the execution of the investment policy, as well as alternative strategic options available to the Company. The Committee also took note of management forecasts that the Company should continue to operate comfortably within its banking facilities during the lifetime of the facilities.

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 programme properly reflected the risk profile of the business;
- ensuring that the Committee's terms of reference continued to accord with the Code.

In accordance with the Code, as part of the Company's year-end process the Committee also assessed the effectiveness of the external audit process during the year (including the full-year audit and the Auditors' half-year review). The Committee had regard to the fact that KPMG have been the Company's Auditors since its stock market listing in 2007. Having carefully considered the outcome of this exercise, the Committee decided that it was appropriate to recommend that KPMG be reappointed as Auditors to the Company for a further year.

KPMG LLP and its related entities provide non-audit services to the Company, in particular tax advice in connection with the Company's REIT status. In order to safeguard the objectivity of the Auditors, strict procedures are in place for the engagement of KPMG entities in non-audit work. All work undertaken by KPMG is notified to the Chairman of the Audit Committee and careful consideration is given to whether such work might give rise to a conflict of interest. The Chairman of the Audit Committee must separately authorise any item of work that could result in fees being paid in excess of 50% of the audit fee in any year.

Nick Vetch
Audit Committee Chairman
17 December 2014

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 2014.

The Directors' Report comprises the information set out on pages 16 to 29.

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 their annual report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires that the directors 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 IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice). 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 the parent Company and of their profit or loss for the relevant period.

In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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 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 directors' report, a directors' remuneration report and a corporate governance statement, each of which conforms to the relevant law and 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. The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable in accordance with the UK Corporate Governance Code 2012, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Independent Auditor's Report is set out on pages 30 to 32. So far as the directors are aware, there is no information relevant to the Auditors' preparation of their report that has not been disclosed to the Company's Auditors. Each director has taken all steps required of a director to ensure that he is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditors. The directors consider that the sections headed Performance Review, Finance Review, Corporate Governance and the Remuneration Report together fulfil the requirement for an enhanced Business Review under section 417 of the Companies Act 2006.

The Corporate Governance section is a statement for the purposes of the Disclosure and Transparency Rule 7.2.1.

Independent Auditor's Report

to the members of the Local Shopping REIT plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of the Local Shopping REIT plc for the year ended 30 September 2014 set out on pages 33 to 62.

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 2014 and of the Group's profit 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: 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.

2. Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and Company's ability to continue as a going concern. During the year the Group disposed of a number of properties and, subsequent to the year end, began marketing its remaining property-owning subsidiary companies for sale, which the directors consider is probable to be completed within the next six months. If the proposed disposal of the Group's remaining properties is successful the directors' current intention is to execute the planned orderly liquidation of assets announced in July 2013. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

3. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Going concern

Refer to page 28 (Audit Committee Report), page 37 (basis of preparation) and page 23 (financial disclosures).

- *The risk* – As described in section 2 of this report above, the group may cease to trade in the foreseeable future. However, if the proposed property disposal is not successful the directors will consider alternative strategies, including continuing to trade. Assessing whether the going concern basis of preparation remains appropriate requires significant judgment and it is important that the disclosure of the directors' judgments in this regard and the nature of any material uncertainty is clear and comprehensive.
- *Our response* – Our procedures in this area involved considering whether the continued preparation of the financial statements on a going concern basis was appropriate given the announced disposal programme and liquidation strategy, and whether realistic alternatives to ceasing trading exist. We discussed with the directors the viability of continuing to trade should the planned property disposal not be successful. We critically assessed the cash flow forecasts prepared by the directors on that basis and the forecast level of cash and forecast headroom on debt covenants for the foreseeable future. We challenged the directors' assumptions included in the forecasts particularly around property disposals, yield and void rates, and default rates. We also considered the adequacy of the group's disclosures in respect of the material uncertainty involved in the continued use of the going concern assumption.

Valuation of investment property portfolio (£87.6m)

Refer to page 28 (Audit Committee Report), page 37 (accounting policy) and page 44 (financial disclosures).

- *The risk* – Investment property is the group's single largest asset category. Its valuation requires significant judgments and estimates, particularly in relation to yield rates and void levels.

- *Our response* – In this area our audit procedures included using our own specialist real estate valuers to assist us in evaluating the assumptions used by the Group. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to yield rates on a geographic as well as a property type basis. Further, we compared the sales price achieved on disposals during the year and after the balance sheet date to the carrying amounts of the disposed properties in the accounting records; and assessed the portfolio valuation as a whole for 'outliers' such as yields in excess of, and significantly below, the average for the portfolio and those properties resulting in the most significant valuation uplift or decrease, which we then investigated with management and the external valuers by assessing specific qualitative factors relevant to each outlier. We checked a sample of rental income to original lease documentation. We also assessed the adequacy of the Group's disclosures concerning the classification of investment properties held for sale, and the sensitivities around the estimates and judgments used in the valuation.

4. 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 £1 million, determined with reference to a benchmark of total Group assets.

We report to the audit committee any identified corrected and uncorrected misstatements exceeding £50,000 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 audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

5. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern; and
- the part of the Corporate Governance Statement on page 16 relating to the Company's compliance with the nine provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Independent Auditors' Report

to the members of the Local Shopping REIT plc only

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

17 December 2014

Consolidated Income Statement

for the year ended 30 September 2014

	Note	2014 £000	2013 £000
Gross rental income		**13,851**	14,649
Property operating expenses		**(3,865)**	(2,579)
Net rental income		**9,986**	12,070
Profit on disposal of investment properties		**475**	114
Loss on disposal of subsidiaries	2	**(1,312)**	–
Loss from change in fair value of investment properties	8	**(496)**	(8,778)
Administrative expenses including non-recurring items	3	**(2,152)**	(4,520)
Net other income	4	**5**	22
Share of results from jointly controlled entities	9	**(4)**	(134)
Operating profit/(loss) before net financing costs		**6,502**	(1,226)
Financing income*	5	**3**	4
Financing expenses*	5	**(7,566)**	(7,947)
Movement in fair value of financial derivatives	5	**2,267**	2,753
Profit/(loss) before tax		**1,206**	(6,416)
Taxation	6	**–**	–
Profit/(loss) for the year from continuing operations		**1,206**	(6,416)
Discontinued operations			
Profit/(loss) for the year from discontinued operations		**–**	345
Profit/(loss) for the financial year attributable to equity holders of the Company		**1,206**	(6,071)
Basic and diluted profit/(loss) per share on loss for the year	18	**1.5p**	(7.5)p
Basic and diluted profit/(loss) per share on continuing operations for the year	18	**1.5p**	(7.9)p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2014

	2014 £000	2013 £000
Profit/(loss) for the financial year	**1,206**	(6,071)
Total comprehensive income for the year	**1,206**	(6,071)
Attributable to:		
Equity holders of the parent Company	**1,206**	(6,071)

Consolidated Balance Sheet
as at 30 September 2014

	Note	2014 £000	2013 £000
Non-current assets			
Investment properties	8	**86,201**	166,107
Investments in jointly controlled entities	9	**292**	507
		86,493	166,614
Current assets			
Trade and other receivables	11	**3,461**	4,784
Investment properties held for sale	8	**2,035**	3,675
Cash	12	**15,662**	6,626
		21,158	15,085
Total assets		**107,651**	181,699
Non-current liabilities			
Interest bearing loans and borrowings	13	**(63,642)**	(134,363)
Finance lease liabilities	15	**(672)**	(922)
Derivative financial instruments	19	**(1,634)**	(3,872)
		(65,948)	(139,157)
Current liabilities			
Interest bearing loans and borrowings	13	**(1,164)**	–
Trade and other payables	14	**(3,319)**	(6,499)
Derivative financial instruments	19	**(2,388)**	(2,417)
		(6,871)	(8,916)
Total liabilities		**(72,819)**	(148,073)
Net assets		**34,832**	33,626
Equity			
Issued capital	16	**18,334**	18,334
Reserves	16	**3,773**	3,773
Capital redemption reserve	16	**1,764**	1,764
Retained earnings		**10,961**	9,755
Total attributable to equity holders of the Company		**34,832**	33,626

The financial statements were approved by the Board on 17 December 2014. They were signed on its behalf by:

Steven Faber
Director

The registered number of the Company is 05304743.

Consolidated Statement of Cash Flows

for the year ended 30 September 2014

	Note	2014 £000	2013 £000
Operating activities			
Profit/(loss) for the year		1,206	(6,071)
Adjustments for:			
Loss from change in fair value of investment properties	8	496	8,778
Net financing costs	5	5,296	5,190
Profit on disposal of investment properties		(475)	(114)
Loss on disposal of subsidaries	2	1,312	–
Loss on disposal of discontinued operations	25	–	500
Depreciation	7	–	123
Share of results of jointly controlled entities	9	4	134
		7,839	8,540
(Increase)/decrease in trade and other receivables		1,220	(86)
(Decrease)/increase in trade and other payables		(1,108)	788
		7,951	9,242
Interest paid		(8,026)	(7,525)
Loan arrangement fees paid		(143)	(481)
Interest received	5	3	4
Corporation tax paid		–	–
Net cash from operating activities		(215)	1,240
Investing activities			
Net proceeds from sale of investment properties		4,255	1,356
Cash transferred on disposal of properties	2	(1,350)	–
Net proceeds from sale of subsidiaries		10,283	–
Acquisition and improvements to investment properties	8	(1,045)	(1,693)
Proceeds of sale from property, plant and equipment		–	3
Proceeds of sale from discontinued operations		–	2,753
Proceeds of sale from other investments		–	725
Investment in jointly controlled entities	9	–	(317)
Repayment of investment in jointly controlled entities	9	210	681
Cash flows from investing activities		12,353	3,508
Net cash flows from operating activities and investing activities		12,138	4,748
Financing activities			
Repayment of borrowings		(3,102)	(68,300)
New borrowings		–	66,310
Dividends paid	17	–	(1,628)
Cash flows from financing activities		(3,102)	(3,618)
Net increase/(decrease) in cash		9,036	1,130
Cash at beginning of year		6,626	5,496
Cash at end of year	12	15,662	6,626

Our Financials

Consolidated Statement of Changes in Equity
for the year ended 30 September 2014

	Share Capital £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
Balance at 30 September 2012	18,334	3,773	1,764	17,454	41,325
Total comprehensive income for the year					
Loss for the year	–	–	–	(6,071)	(6,071)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(1,628)	(1,628)
Total contributions by and distributions to owners	–	–	–	(1,628)	(1,628)
Balance at 30 September 2013	18,334	3,773	1,764	9,755	33,626
Total comprehensive income for the year					
Profit for the year	–	–	–	1,206	1,206
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	–	–
Balance at 30 September 2014	**18,334**	**3,773**	**1,764**	**10,961**	**34,832**

Notes to the Financial Statements

for the year ended 30 September 2014

1. Accounting Policies

Basis of Preparation

The Local Shopping REIT plc ("the Company") is a company incorporated and domiciled in the UK. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted "IFRS") and in accordance with the provisions of the Companies Act 2006.

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, derivative financial instruments, other investments and investment properties held for sale.

The directors have considered whether it is appropriate to prepare the financial statements on a going concern basis. During the year the Group disposed of a number of properties and subsequent to the year end began marketing its remaining property-owning subsidiary companies in a single transaction. The directors believe a sale, which will generate proceeds sufficient to repay all of the Group's financial obligations, is probable within the next six months. Should the sale proceed it is likely to be the directors' intention to liquidate the Company shortly following the sale of the remaining properties, repay all creditors and distribute all remaining monies to the shareholders. If this sale does not proceed then the directors will consider their options which include the sale of all the remaining properties in piecemeal over several years or continue to trade as a going concern. The directors have prepared profit and cash flow forecasts for the period to 30 September 2018 which include assumptions relating to the sale of properties under the current investment strategy which the directors consider to be reasonable. These forecasts project that the Group's and Company's funding needs will be comfortably met by the existing banking facility agreements without any breach of related covenants over the remaining life of the facilities which expire in 2018.

On the basis of these projections the directors consider that the Group will continue to be compliant with its banking covenants and sufficient resources will be available to enable it to continue as a going concern for at least the next 12 months. However the directors' intention to liquidate the company within the next 12 months in the event that the proposed disposal of the Group's remaining properties is successful represents a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result from the going concern basis of preparation being inappropriate.

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 30 September 2014. Subsidiaries are consolidated from the date on which the Group obtains control, being the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. They continue to be consolidated until the date that such 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.

The fair value of investment properties is based on market values being an estimated amount for which a property could be exchanged on the date of valuation under an arm's length transaction between a willing buyer and seller after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Professional external valuers have valued a sample selected by themselves of 25% of the existing portfolio at the half year and year end and all new purchases since the previous valuation to the half year and to the year end. The remainder of the portfolio has been valued on the basis of market value at the year end by the directors who have appropriate recognised professional qualifications and recent experience of the location and category of the property being valued.

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.

Notes to the Financial Statements

1. Accounting Policies continued

Disposals of investment properties are recognised on completion; profits and losses arising are recognised through the Income Statement, the profit is determined as the difference between the sales proceeds and the carrying amount of the asset at the last valuation date plus any additional expenditure incurred since that date.

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.

Head Leases

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 is included in the Balance Sheet as a finance obligation in current and non-current liabilities.

The payment of head rent reduces the gross liability and the interest element of the finance lease is charged to the Income Statement. Head leases considered not to have a material life remaining at the date of acquisition are accounted for as operating leases with the head rent paid being expensed through the Income Statement.

Property, Plant and Equipment

During the year the Company has agreed a termination of its lease of its former offices with an effective date in June 2014. As anticipated in the 2013 report, no realisation of fixed assets was achieved.

Joint Ventures

The Group has contractual arrangements with other parties which represent jointly controlled entities. These take the form of agreements to share control over other entities. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis. Under the equity method, the interests in the jointly controlled entities are carried in the Balance Sheet at cost plus post-acquisition changes in the Group's share of their net assets, less distributions received and less any impairment in value of the individual investments. The Income Statement reflects the Group's share of the jointly controlled entities' results after interest and tax.

The financial statements of the jointly controlled entities are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used in line with those of the Group.

During the preceding year one of the joint ventures was disposed of. Its results have been included up to the date of disposal.

Other Investments

Other non-current investments are classified as available for sale financial assets and are recognised at fair value. Changes in the fair value in the year are recognised directly in the Statement of Comprehensive Income. Dividend income from investments is recognised in the Income Statement when the right to receive payment is established.

During the preceding year the one non-current investment was disposed of. Its results have been included up to the date of disposal.

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.

1. Accounting Policies continued

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as interest rate swaps to economically hedge risks associated with interest rate fluctuations. The Group does not hold or issue derivatives for trading purposes.

Such instruments are initially measured at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Financial derivatives are recognised as current and non-current based on the maturity profile of the associated cash flows.

The Group has determined that the derivative financial instruments held did not qualify as effective for hedge accounting under the criteria set out in IAS 39 and consequently any gains or losses arising from changes in their fair value are taken to the Income Statement. In the future and on an ongoing basis as new derivative financial instruments are entered into, the directors will review the derivative contracts to consider whether they qualify for hedge accounting.

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 less impairment.

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 will be 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 cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction to income.

Other Income

Other income comprises administration fees charged on lease renewals. In 2013 this also included asset management fees which were recognised in the Income Statement as earned under the terms of each agreement.

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.

Notes to the Financial Statements

1. Accounting Policies continued

Pensions

The Company operated a defined contribution pension plan. During 2013 contributions payable by the Company in respect of defined contribution pension plans were charged to administrative expenses as incurred. These costs ceased in July 2013.

Share-based Payments

There were no material share-based payment arrangements during the period.

Employee Benefit Trust

The Group operates an Employee Benefit Trust in order to hedge its obligations under the CSOP and LTIP schemes. The Group either purchases its own shares directly or it funds 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, derivative financial instruments and trade receivables.

The valuation of the Group's investment properties is the main area of judgement exercised by the Board in respect of the Group's results. The Board has obtained an external valuation of the portfolio carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors in respect of all properties purchased since 1 October 2013 and a further 25% of the portfolio at the half year and year end as selected by the valuers. The valuers were acting as independent valuers and have good information and experience of the current market prices for properties similar to those owned by the Group. Their opinion of Market Value was primarily derived using comparable recent market transactions on an arm's length basis. The tone of their valuation has been adopted by the directors to value the remainder of the portfolio. The assumptions underlying the valuation of the commercial properties within the portfolio include: future rental income, an appropriate discount rate, any planned capital expenditure and the strength of the local letting market in relation to the Market Rent of any letting voids. In addition to these assumptions, in respect of the residential element of the portfolio, a discount of 85% is typically applied to reflect vacant possession.

The valuation of derivative financial instruments and the fixed rate loan are also areas where judgement has been exercised by the Board. These assets and liabilities have been valued by the Group's bankers. These valuations have been relied upon by the Board.

The Group is required to assess whether there is sufficient objective evidence to require the impairment of individual trade receivables. It does this through a regular review of arrears with consideration given to any specific circumstances relating to the receivable.

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.

1. Accounting Policies continued

New Standards and Interpretations Not Yet Adopted

As at September 2014, the following standards and interpretations or amendment there to, which have not been applied in these financial statements, were in issue but not yet effective. The effect of their adoption on the financial statements in future periods has not yet been ascertained.

	Applicable for the year commencing on or after
IFRS 9 (Financial Instruments (revised)) – not yet endorsed	1 January 2015
Amendment to IAS 32 (Financial Instruments: Presentation) – endorsed	1 January 2014
Amendment to IAS 39 (Financial instruments: Recognition and Measurement) – not yet endorsed	1 January 2014
IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements	1 January 2014
IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures	1 January 2014
IFRS 12 Disclosure of Interest in Other Entities	1 January 2014
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014
IFRIC Interpretation 21 Levies	1 January 2014

2. Disposal of subsidiary companies

During the year the company disposed of two subsidiaries, NOS 2 Limited and NOS 3 Limited by the sale of their entire share capital.

The loss on sale was calculated as follows:

	£000's	£000's
Sale proceeds		11,100
Deduct:		
Assets of the subsidiaries		
Properties	78,199	
Debtors and prepayments	104	
Cash	1,350	
	79,653	
Liablilities of the subsidiaries		
Creditors and accurals	(1,319)	
Bank loans	(66,739)	
	(68,058)	
Net assets of subsidiaries	11,595	
Fees and other costs	817	
		12,412
Net loss		(1,312)

3. Administrative Expenses

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

	2014 £000	2013 £000
Auditors' remuneration for audit services:		
Audit of parent Company	37	34
Audit related assurance services	19	16
Statutory audit of subsidiaries	43	52
Auditors' remuneration for non-audit services:		
Tax services	27	37
Other services supplied	15	10

The other services supplied related to the disposal under project Minard of NOS 2 Limited and NOS 3 Limited and in 2013 relate to professional advice received in connection with the strategic review and restructure.

Notes to the Financial Statements

3. Administrative Expenses continued

b) Included in administrative expenses are staff costs and directors' remuneration.

The average number of persons employed by the Group was as follows:

	2014 Number of Employees	2013 Number of Employees
Administration	–	11

The average shown above for 2013 is for the full year. For the period from October 2012 to June 2013, when all the existing employees either left or were transferred to Internos Global Investors Limited, the average was 15. From July 2013 onwards the average has been nil.

The aggregate payroll costs of these people were as follows:

	2014 £000	2013 £000
Wages and salaries	–	1,024
Payments under compromise agreements	–	965
Social security costs	–	157
Other pension costs	–	79
Equity settled share-based payments	–	–
	–	2,225

Directors' emoluments are disclosed separately in the Remuneration Report.

c) Share Awards

There were no material share-based payment arrangements during the period.

d) Non-recurring items

IAS 1 (Revised) – "Presentation of financial statements" requires material items of income and expenditure to be disclosed separately. The amounts are items which, in management's opinion, need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information.

Included in the administration costs are charges arising from the reconstruction following the strategic review, and are non-recurring:

In administration costs:

	2014 £000	2013 £000
Paid to directors under compromise agreements	–	772
Employer's NI on the above payments	–	15
Paid to employees under compromise agreements	–	193
Employer's NI on the above payments	–	6
Legal, professional and advisory fees	–	912
Dilapidations provision on termination of Company's office lease	–	39
	–	1,937
Included within financial costs:		
Accelerated amortisation of loan fees	–	312
	–	2,249

4. Net Other Income

	2014 £000	2013 £000
Other income	5	22
Other expenses	–	–
	5	22

5. Net Financing Costs

	2014 £000	2013 £000
Interest receivable	3	4
Interest receivable excluding fair value movements	3	4
Fair value gains on derivative financial instruments (note 19)	2,267	2,753
Financing income	2,270	2,757
Bank loan interest	(7,366)	(7,436)
Amortisation of loan arrangement fees	(146)	(143)
Write off of loan arrangement fees	–	(313)
Head rents treated as finance leases	(54)	(55)
Financing expenses excluding fair value movements	(7,566)	(7,947)
Fair value losses on derivative financial instruments (note 19)	–	–
Financing expenses	(7,566)	(7,947)
Net financing costs	(5,296)	(5,190)

6. Taxation

	2014 £000	2013 £000
Current tax		
Corporation tax charged at 22% (2013: 23.5%)	–	–
Total current tax	–	–
Deferred tax		
Origination and reversal of temporary differences	–	–
Total tax charge in the Income Statement	–	–

Reconciliation of Effective Tax Rate

	2014 £000	2013 £000
Profit\(loss) before tax	1,206	(6,071)
Corporation tax in the UK of 22% (2013: 23.5%)	265	(1,427)
Tax relief available from REIT status	(1,387)	(1,199)
Effects of:		
Revaluation deficit and other non-deductible items	391	2,004
Deferred tax asset not recognised	731	622
	–	–

Factors that may affect future current and total tax charges

The March 2013 UK Budget announced that the UK corporation tax rate will reduce to 20% by 2015. Reductions in the rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This would reduce the Company's future tax charge accordingly.

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 as the current year losses will be adequate to cover foreseeable profits. The unprovided deferred tax asset at 30 September 2014 was £3,224,000 (2013: £2,648,000).

Notes to the Financial Statements

7. Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 30 September 2012	167	41	72	280
Additions	–	–	–	–
Disposals	–	–	(7)	(7)
At 30 September 2013	**167**	**41**	**65**	**273**
Additions	–	–	–	–
Disposals	(167)	(41)	(65)	(273)
At 30 September 2014	**–**	**–**	**–**	**–**
Depreciation				
At 30 September 2012	76	22	56	154
Charge for year	91	19	13	123
Written back on disposals	–	–	(4)	(4)
At 30 September 2013	**167**	**41**	**65**	**273**
Charge for year	–	–	–	–
Written back on disposals	(167)	(41)	(65)	(273)
At 30 September 2014	**–**	**–**	**–**	**–**
Net book value				
At 30 September 2014	**–**	**–**	**–**	**–**
At 30 September 2013	–	–	–	–
At 30 September 2012	91	19	16	126

8. Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 30 September 2012	144,844	33,265	178,109
Property improvements	1,434	259	1,693
Disposals	(1,159)	(83)	(1,242)
Fair value adjustments	(7,473)	(1,305)	(8,778)
Investment properties held for sale	(2,857)	(818)	(3,675)
At 30 September 2013	134,789	31,318	166,107
Property improvements	51	994	1,045
Disposals	(68,217)	(13,878)	(82,095)
Fair value adjustments	653	(1,149)	(496)
Movement on investment properties held for sale	1,487	153	1,640
At 30 September 2014	**68,763**	**17,438**	**86,201**

The investment properties have all been revalued to their fair value at 30 September 2014.

At the half year and year end, all properties acquired in those six months, together with a sample selected by the valuers of 25% of the portfolio, at the half year and at the year end have been valued by Allsop LLP, a firm of independent Chartered Surveyors. 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.

The disposals balance includes properties at carrying value of £78.2m that were disposed of as part of the NOS 2 and NOS 3 transaction.

8. Investment Properties continued

The remainder of the portfolio has been valued on the basis of market value by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

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:

	2014 £000	2013 £000
Portfolio valuation	87,564	168,860
Investment properties held for sale	(2,035)	(3,675)
Head leases treated as investment properties held under finance leases per IAS 17	672	922
Total per Balance Sheet	86,201	166,107

9. Investments in Jointly Controlled Entities

The Group has the following investments in jointly controlled entities:

	2014		2013	
	Country	Ownership	Country	Ownership
Local Parade Investments LLP	United Kingdom	nil	United Kingdom	nil
Gracechurch Commercial Investments Limited	United Kingdom	50%	United Kingdom	50%

On 26 November 2010 an agreement was entered into with Local Parade Investments LLP ("LPI"), a newly incorporated entity. The initial investment made was £20. The principal activity of the entity is the acquisition and management of retail parades. This investment was disposed of as part of the reconstruction following the strategic review, in July 2013. This is now reflected in discontinued operations (note 25).

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited ("Gracechurch"), a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity is to manage properties for investment purposes. During the year the entire portfolio of Gracechurch was disposed of, and since the year end the company has commenced the process of a members' voluntary liquidation.

	Gracechurch £000	LPI £000	Total £000
Cost			
At 30 September 2012	641	3,429	4,070
Equity investments	–	–	–
Loan advances	–	317	317
Share of results, net of tax	(134)	187	53
Distributions received		(681)	(681)
Disposal		(3,252)	(3,252)
At 30 September 2013	507	–	507
Equity investments	–	–	–
Loan advances	–	–	–
Share of results, net of tax	(4)	–	(4)
Distributions received	(210)	–	(210)
Investment disposed of	–	–	–
At 30 September 2014	**293**	**–**	**293**

Notes to the Financial Statements

9. Investments in Jointly Controlled Entities continued

The summarised financial information in respect of the Group's share of the jointly controlled entities is shown below.

Year ended 30 September 2013

	Gracechurch £000	LPI £000	Total £000
Non-current assets	1,019	–	1,019
Current assets	44	–	44
Non-current liabilities	(491)	–	(491)
Current liabilities	(65)	–	(65)
	507	–	507
Represented by:			
Capital	500	–	500
Loans	210	–	210
Brought forward share of results	(68)	–	(68)
Share of results, net of tax	(135)	–	(135)
Group's share of net assets	507	–	507

	Gracechurch £000	LPI £000	Total £000
Net rental income	91	544	635
Property expenses	(26)	(101)	(127)
Administrative expenses	(14)	(24)	(38)
Change in fair value of investment properties	(139)	22	(117)
Net interest payable	(54)	(252)	(306)
Movement in fair value of financial derivatives	8	(7)	1
Profit on disposal of investment properties	–	5	5
Tax	–	–	–
	(134)	187	53

Year ended 30 September 2014

	Gracechurch £000	**LPI £000**	**Total £000**
Current assets	**317**	**–**	**317**
Current liabilities	**(24)**	**–**	**(24)**
	293	**–**	**293**
Represented by:			
Capital	**500**	**–**	**500**
Brought forward share of results	**(203)**	**–**	**(203)**
Share of results, net of tax	**(4)**	**–**	**(4)**
Group's share of net assets	**293**	**–**	**293**

	Gracechurch £000	**LPI £000**	**Total £000**
Net rental income	**84**	**–**	**84**
Property expenses	**(11)**	**–**	**(11)**
Administrative expenses	**(13)**	**–**	**(13)**
Net interest payable	**(26)**	**–**	**(26)**
Movement in fair value of financial derivatives	**9**	**–**	**9**
Profit on disposal of investment properties	**(49)**	**–**	**(49)**
Tax	**2**	**–**	**2**
	(4)	**–**	**(4)**

10. Other investments

On 8 March 2012, the Group entered into a partnership and property advisory agreement with Local Retail Fund GP Limited, a newly incorporated entity. The initial investment made was £45. The principal activity of the entity is the acquisition and management of a diversified portfolio of local retail property in the UK. As part of the restructuring following strategic review, this investment was disposed of in July 2013.

	Total £000
Fair value	
At 30 September 2012	909
Disposals	(909)
At 30 September 2013	–
At 30 September 2014	**–**
Impairment losses	
At 30 September 2012	–
Charge for the year	184
Disposals	(184)
At 30 September 2013	–
At 30 September 2014	**–**
Net book value	
At 30 September 2014	**–**
At 30 September 2013	–
At 30 September 2012	909

11 Trade and Other Receivables

	2014 £000	2013 £000
Trade receivables	**1,100**	2,822
Other receivables	**1,640**	711
Prepayments	**721**	1,251
	3,461	4,784

12. Cash

	2014 £000	2013 £000
Cash in the Statement of Cash Flows	**15,662**	6,626

Included in bank balances are amounts held pending the next interest payment due in October 2014. Until the interest payment has been deducted from these balances the cash is not available for use by the Group. At the year end the amount held on such account was £1,240,306 (2013: £1,905,672) with accruals for interest due of £676,647 (2013: £1,493,409).

Notes to the Financial Statements

13. Interest Bearing Loans and Borrowings

	2014 £000	2013 £000
Non-current liabilities		
Secured bank loans	**63,961**	134,939
Loan arrangement fees	**(319)**	(576)
	63,642	134,363
Current liabilities		
Current portion of secured bank loans	**1,164**	–

All bank borrowings are secured by fixed charges over certain of the Group's property assets and floating charges over the companies which own the assets charged.

As part of the NOS 2 and NOS 3 transaction, loan balances of £66.7m were disposed of as part of the net assets of those companies.

For more information about the Group's exposure to interest rate risk, see note 20.

14. Trade and Other Payables

	2014 £000	2013 £000
Trade payables	**399**	929
Other taxation and social security	**5**	444
Other payables	**967**	1,005
Accruals and deferred income	**1,948**	4,121
	3,319	6,499

Other payables include rent deposits held in respect of commercial tenants of £469,000 (2013: £862,000).

15. 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 2012	6,864	(5,942)	922
(Payments)/charge	(55)	55	–
At 30 September 2013	6,809	(5,887)	922
Disposals in year	(2,028)	1,778	(250)
(Payments)/charge	(54)	54	–
At 30 September 2014	**4,727**	**(4,055)**	**672**

In the above table, interest represents the difference between the carrying amount and the contractual liability/cash flow.

All leases expire in more than five years.

16. Capital and Reserves

Share Capital

	2014 Ordinary 20p Shares Number 000	2014 Ordinary 20p Shares Amount £000	2013 Ordinary 20p Shares Number 000	2013 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 (2013: 9,164,017).

The number of shares held by the Company's Employee Benefit Trust, LSR Trustee Limited at the year end was 1,096,545 (2013: 1,096,545). During the year the EBT transferred no shares (2013: Nil) to employees on the vesting of awards under the Long Term Incentive Plan. During the year the EBT transferred no shares to employees on the exercise of awards under the Company's Share Option 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)

	2014 £000	2013 £000
Net assets	34,832	33,626
Fair value of derivative financial instruments (see note 19)	4,022	6,289
Adjusted net assets	38,854	39,915

	2014 Number 000	2013 Number 000
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	42p	41p
Adjusted NAV per share	47p	48p

17. Dividends

The following dividends were paid during the current and previous year.

Date paid	Dividend per share	Total payment £000	Classification of dividend
31 December 2012	2.0 pence	1,628	PID

Under the REIT legislation, the Company's dividends are divided into two components, known as Property Income Distributions ("PID") and non-Property Income Distributions ("non-PID").

Notes to the Financial Statements

18. Earnings Per Share

Basic Earnings Per Share

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

Profit/(Loss) Attributable to Ordinary Shares

	2014 £000	2013 £000
Profit/(Loss) for the year	1,206	(6,071)
Add back result for the year from discontinued operations	–	(345)
Profit\(loss) on continuing operations for the year	1,206	(6,416)

Weighted Average Number of Ordinary Shares

	2014 Number 000	2013 Number 000
Issued Ordinary Shares at 1 October 2013	91,670	91,670
Shares held by EBT	(1,096)	(1,096)
Treasury shares	(9,164)	(9,164)
Weighted average number of Ordinary Shares at 30 September 2014	81,410	81,410

Diluted Earnings Per Share

There is no difference between basic and diluted earnings per share in the prior year and no difference in the current year.

19. Derivative Financial Instruments

Derivative financial instruments held by the Group are interest rate swaps used to manage the Group's interest rate exposure. These are shown in the Balance Sheet as follows:

	Fair Value 2012 £000	Movements in Income Statement £000	Fair Value 2013 £000	Movements in Income Statement £000	Fair Value 2014 £000
Non-current liabilities	(6,595)	2,723	(3,872)	2,238	(1,634)
Current liabilities	(2,447)	30	(2,417)	29	(2,388)
Fair value	(9,042)	2,753	(6,289)	2,267	(4,022)

At 30 September 2014 and 30 September 2013 these derivative financial instruments did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

A summary of the swaps and their maturity dates are as follows:

Notional value of swap £000	Effective date	Maturity date	Rate payable on fixed leg %	Fair value 2013 £000	Movement in Income Statement £000	Fair value 2014 £000
20,979	16 July 2007	31 January 2017	4.85	(2,518)	860	(1,658)
22,500	30 April 2013	20 July 2016	5.05	(2,571)	959	(1,612)
10,500	30 April 2013	29 July 2016	5.05	(1,200)	448	(752)
				(6,289)	2,267	(4,022)

The interest rate receivable on each swap is LIBOR. The notional value of the £20,979,000 swap amortises at a rate of £200,000 per quarter.

The derivative financial instruments included in the above tables are stated at their fair value based on quotations from the Group's bank.

More details of the Group's policy regarding the management of interest rate risk are given in note 20.

20. Financial Instruments and Risk Management

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As described in the Corporate Governance report, this responsibility has been assigned to the executive directors with support and feedback from the Audit Committee. 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 long-term borrowings, cash and equity attributable to the shareholders. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board regularly reviews the Group's capital structure, cost of capital, gearing levels and other specific measures. From time to time, the Company purchases its own shares when the Board considers that this course of action would enhance the value of the Group for shareholders. The Group has had a policy of paying 100% of recurring profits as a dividend each year. Following the restructuring in July 2013 dividend policy will be reviewed half-yearly by the Board. No dividend has been paid during the year. There were no other changes in the Group's approach to capital management during the year.

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 is restricted to interest rate risk only. The Group borrows at floating rates of interest and uses financial instruments to fix the floating rates of interest in accordance with its policy.

The Group and its jointly controlled entities do not speculate in financial instruments. They are only used to limit their exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 30 September 2014, 83% (2013: 92%) of the Group's debt was fixed or protected, as shown below.

	At 30 September 2014				At 30 September 2013			
	Interest bearing loans £000	Fixed rate loans £000	Notional value of swaps £000	Loans not protected by swaps £000	Interest bearing loans £000	Fixed rate loans £000	Notional value of swaps £000	Loans not protected by swaps £000
Fixed rate loan*	–	–	–	–	69,229	69,229	–	–
Variable rate loan	65,125	–	53,979	11,146	65,710	–	54,778	10,932
	65,125	–	53,979	11,146	134,939	69,229	54,778	10,932

* The fixed rate interest bearing loan is shown gross of £600,000 held in an escrow account at 30 September 2013. This escrow account is an interest-bearing account, for which the lender has sole signing rights, where all funds deposited shall be applied towards repayment of the loan on 16 January 2017. This loan was transferred as part of the sale of Nos 2 Limited and NOS 3 Limited.

The variable rate loan is protected by interest rate swaps which are carried at fair value. These have been identified as Level 2 in the fair value hierarchy. Level 2 is defined as inputs other than quoted prices included within Level 1 that are observable for the liability either directly (i.e. as prices) or indirectly (as derived from prices).

Notes to the Financial Statements

20. Financial Instruments and Risk Management continued

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 0%. It has been possible to consider the impact of a 1% change in rates on the fair value of derivatives as the contracted rates are greater than 1%. 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. Changes in the fair value of derivative financial instruments have been estimated by discounting future cash flows at appropriate market rates prevailing at each year end.

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.

	2014				2013			
	Impact on income		**Impact on equity**		Impact on income		Impact on equity	
	+	**-**	**+**	**-**	+	-	+	-
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Impact on interest income and expense	**63**	**111**	**63**	**111**	62	53	62	53
Impact on fair value of derivatives	**1,075**	**608**	**1,075**	**608**	1,692	1,699	1,692	1,699

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. The Group has over 1,000 tenants in 387 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 on pages 2-3. 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

Three major UK banks provide the majority of the banking services used by the Group. Financial derivatives are only entered into with these core banks.

20. 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 2014

	At fair value £000	Available for sale £000	At amortised cost £000	Total carrying amount £000	Fair value £000
Investments in jointly controlled entities	–	–	293	293	293
Cash and cash equivalents	–	15,662	–	15,662	15,662
Trade receivables	–	–	1,100	1,100	1,100
Other receivables	–	–	1,640	1,640	1,640
	–	15,662	3,033	18,695	18,695

30 September 2013

	At fair value £000	Available for sale £000	At amortised cost £000	Total carrying amount £000	Fair value £000
Investments in jointly controlled entities	–	–	507	507	507
Other Investments	–	–	–	–	–
Cash and cash equivalents	–	6,626	–	6,626	6,626
Trade receivables	–	–	2,822	2,822	2,822
Other receivables	–	–	711	711	711
	–	6,626	4,040	10,666	10,666

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

The ageing of trade receivables is as follows:

	2014			2013		
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	311	–	311	782	–	782
Past due by one to 30 days	368	(2)	366	1,107	(4)	1,103
Past due by 30–60 days	220	(5)	215	166	(11)	155
Past due by 60–90 days	32	(8)	24	262	(15)	247
Past due by 90 days	358	(174)	184	769	(234)	535
	1,289	(189)	1,100	3,086	(264)	2,822

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

Other receivables at 30 September 2014 and 30 September 2013 were not past due.

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

	2014 £000	2013 £000
Balance at beginning of year	264	542
Impairment loss recognised	617	656
Trade receivables written off	(692)	(934)
Balance at end of year	189	264

The movement in the trade receivables impairment allowance in relation to Nos 2 and Nos 3 (disposed of during year) is a net write off of £178,000.

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

Notes to the Financial Statements

20. Financial Instruments and Risk Management continued

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 2014

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	64,806	64,806	64,806
Finance lease liabilities	–	672	672	672
Derivative financial instruments	4,022	–	4,022	4,022
Trade payables	–	399	399	399
Other payables	–	830	830	830
Accruals	–	936	936	936
	4,022	67,643	71,665	71,665

30 September 2013

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	134,363	134,363	143,356
Finance lease liabilities	–	922	922	922
Derivative financial instruments	6,289	–	6,289	6,289
Trade payables	–	929	929	929
Other payables	–	889	889	889
Accruals	–	1,863	1,863	1,863
	6,289	138,966	145,255	154,248

For all classes of financial liabilities, other than the fixed rate loan, the carrying amount is a reasonable approximation of fair value.

The fair value of the fixed rate element of the interest bearing loan disclosed above has been valued by the Group's bankers.

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

30 September 2014

	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	64,806	72,292	2,794	2,749	2,696	64,053	–	–
Finance lease liabilities	672	4,732	47	47	47	47	47	4,497
Derivative financial instruments	4,022	4,575	2,388	1,982	205	–	–	–
Trade payables	399	399	399	–	–	–	–	–
Other payables	830	830	830	–	–	–	–	–
Accruals	936	936	936	–	–	–	–	–
	71,665	83,764	7,394	4,778	2,948	64,100	47	4,497

20. Financial Instruments and Risk Management continued

30 September 2013

	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	134,363	158,547	8,072	8,408	8,747	69,949	63,371	–
Finance lease liabilities	922	6,863	55	55	55	55	55	6,588
Derivative financial instruments	6,289	6,789	2,417	2,233	1,858	281	–	–
Trade payables	929	929	929	–	–	–	–	–
Other payables	889	889	889	–	–	–	–	–
Accruals	1,863	1,863	1,863	–	–	–	–	–
	145,255	175,880	14,225	10,696	10,660	70,285	63,426	6,588

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.

21. Operating Lease Arrangements

a) Leases as Lessee

Future minimum lease payments payable by the Group under non-cancellable operating leases are payable as follows:

	Land and Buildings 2014 £000	Land and Buildings 2013 £000
The next year	–	72
Years two to five	–	–
Beyond five years	–	–
	–	72

During the year ended 30 September 2014 £nil was recognised as an expense in the Income Statement in respect of operating leases (2013: £96,000).

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:

	2014 £000	2013 £000
Less than one year	2,169	3,883
Between one and five years	2,520	5,505
More than five years	3,226	6,187
	7,915	15,575

22. Capital Commitments

At 30 September 2014 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £78,000 (2013: £28,000).

At 30 September 2014, the jointly controlled entities had contracted capital expenditure for which no provision has been made in these financial statements of £Nil (2013: £Nil).

Notes to the Financial Statements

23. 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.

24. Group Entities

Subsidiaries

	Country of Incorporation	Ownership Interest 2014	Ownership Interest 2013
NOS Limited – in members' voluntary liquidation	United Kingdom	100%	100%
NOS 2 Limited – disposed of during year	United Kingdom	–	100%
NOS 3 Limited – disposed of during year	United Kingdom	–	100%
NOS 4 Limited	United Kingdom	100%	100%
NOS 5 Limited	United Kingdom	100%	100%
NOS 6 Limited	United Kingdom	100%	100%
Palladium Investments Limited	United Kingdom	100%	100%
NOS 8 Limited – in members' voluntary liquidation since year end	United Kingdom	100%	100%
Gilfin Property Holdings Limited	United Kingdom	100%	100%
LSR Asset Management Limited – in members' voluntary liquidation	United Kingdom	100%	100%
NOS Residential Limited – in members' voluntary liquidation since year end	United Kingdom	100%	100%
LSR Investment Services Limited – wound up during year	United Kingdom	Nil%	100%
LSR Gresham Asset Advisers Limited – in members' voluntary liquidation	United Kingdom	100%	100%
LSR Gresham Investments Limited – in members' voluntary liquidation	United Kingdom	100%	100%
Jointly controlled entities			
Gracechurch Commercial Investments Limited*	United Kingdom	50%	50%

* In members' voluntary liquidation.

25. Discontinued operations

In July 2013 as part of the reconstruction following the strategic review, the company disposed of its interests in Local Parade Investments LLP and LSR Asset Services Limited. In addition it ceased its asset management activities being carried on by LSR Asset Management Limited and LSR Gresham Asset Advisors Limited.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2014 £000	2013 £000
Joint venture in Local Parade Investments LLP		
Share of revenue	–	544
Share of expenses	–	(357)
Share of profit/(loss)	–	187
Asset management		
Revenue	–	702
Expenses	–	(44)
Profit	–	658
Profit before tax	–	845
Taxation	–	–
	–	845
Loss on disposal of discontinued operations	–	(500)
Net profit attributable to discontinued operations (attributable to equity holders of the company)	–	345
Basic and diluted earnings per share	–	0.4p

	2014 £000	2013 £000
Cash flows from (used in) discontinued operation		
Net cash from (used in) operating activities	–	960
Net cash used in investing activities	–	364
Net cash from financing activities	–	(1,239)
Net cash flows for the year	–	85

On 7 August 2014 LSR plc disposed of its shareholdings in NOS 2 and NOS 3. Management have considered the criteria of IFRS 5 and have concluded that they are not applicable to this transaction.

26. Significant contracts

With effect from 22 July 2013 the Company entered into a management agreement with Internos Global Investors Limited ("Internos"). Under this agreement the Company pays to Internos:

- 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 property sales as follows:

Up to £50m	nil
£50m–£150m	0.5% of sales
Over £150m	1.5% 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 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.

Under the terms of the agreement Internos received fees of £1,318,539 (2013: £291,967) during the year. In addition Internos received a one off fee in 2013 of £50,000 for work carried out in renegotiating the HSBC loan facilities.

Company Balance Sheet
as at 30 September 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Fixed assets					
Investments	C5		70,418		84,334
			70,418		84,334
Current assets					
Debtors	C6	2,460		2,927	
Cash		10,108		1,764	
		12,568		4,691	
Creditors: Amounts falling due with one year	C7	(46,261)		(49,284)	
Net current liabilities			(33,693)		(44,593)
Total assets less current liabilities			36,725		39,741
Creditors: Amounts falling due after one year			–		–
Net assets			36,725		39,741
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		12,885		15,901
Shareholders' funds			36,725		39,741

These financial statements were approved by the Board of directors on 17 December 2014 and were signed on its behalf by:

Steven Faber
Director

The registered number of the Company is 05304743.

Notes to the Financial Statements

C1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with applicable UK Accounting Standards and under the historical cost accounting rules.

Cash Flow Statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

Related Party Transactions

The Company has taken advantage of the exemption in FRS 8 – Related Party Transactions and has not disclosed transactions or balances with entities which form part of the Group as these consolidated financial statements include the results of these entities.

Financial Instruments

The Company has adopted the requirements of FRS 29 – Financial Instruments Disclosures and has taken the exemption under that standard from disclosure on the grounds that the Group financial statements contain disclosures in compliance with IFRS 7.

Investments

Investments in subsidiary undertakings are stated at historic cost less provisions for impairment.

Tangible Fixed Assets

Following the termination of the Company's office lease in 2013, all tangible assets were written off in that year.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen, but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pensions

The Company operates a defined contribution pension plan. Contributions payable by the Company in respect of defined contribution pension plans are charged to administrative expenses as incurred.

Share-Based Payments

There were no material share-based payment arrangements during the period.

Employee Benefit Trust

The Company operates an Employee Benefit Trust in order to hedge its obligations under the CSOP and LTIP schemes. The Company either purchases its own shares directly or it funds the trust to acquire shares in the Company. Transactions of the Employee Benefit Trust are treated as being those of the Company and are reflected in the Company's financial statements.

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 Company.

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

Loss 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 £3,016,000 (2013: £50,011,000).

Notes to the Financial Statements

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 3 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 3 to the Group financial statements.

C5. Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 30 September 2013	155,355	155,355
Disposals	(46,750)	(46,750)
At 30 September 2014	108,605	108,605
Provisions		
At 30 September 2013	71,021	71,021
Impairment charge for year	2,332	2,332
Written back on disposals	(35,166)	(35,166)
At 30 September 2014	38,187	38,187
Net book value		
At 30 September 2014	70,418	70,418
At 30 September 2013	84,334	84,334

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 are more than 20% are as follows:

Subsidiary undertaking	Nature of Business	Ownership Interest*
NOS Limited – in members' voluntary liquidation	Dormant	100%
NOS 4 Limited	Property investment	100%
NOS 5 Limited	Property investment	100%
NOS 6 Limited	Property investment	100%
Palladium Investments Limited	Property investment	100%
NOS 8 Limited – in members' voluntary liquidation	Property investment	100%
Gilfin Property Holdings Limited	Property investment	100%
LSR Asset Management Limited – in members' voluntary liquidation	Property management	100%
NOS Residential Limited – in members' voluntary liquidation	Property investment	100%
LSR Gresham Asset Advisers Limited – in members' voluntary liquidation	Property management	100%
LSR Gresham Investments Limited – in members' voluntary liquidation	Property investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

C6. Debtors

	2014 £000	2013 £000
Amounts owed by Group undertakings	801	2,722
Other debtors	1,369	–
Other taxation and social security	274	125
Prepayments	16	80
	2,460	2,927

C7. Creditors

	2014 £000	2013 £000
Trade creditors	227	93
Amounts owed to Group undertakings	45,663	48,721
Other taxation and social security	5	130
Other creditors	132	–
Accruals	234	340
	46,261	49,284

C8. Reconciliation of Shareholders' Funds

Share Capital

	2014 Ordinary 20p Shares		2013 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	91,670	18,334	91,670	18,334

Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 30 September 2012	3,742	1,764	67,540	73,046
Dividend	–	–	(1,628)	(1,628)
Loss for the financial year	–	–	(50,011)	(50,011)
At 30 September 2013	3,742	1,764	15,901	21,407
Dividend	–	–	–	–
Loss for the financial year	–	–	(3,016)	(3,016)
At 30 September 2014	**3,742**	**1,764**	**12,885**	**18,391**

Notes to the Financial Statements

C8. Reconciliation of Shareholders' Funds continued

Investment in Own Shares

At 30 September 2014, 9,164,017 shares were held in treasury (2013: 9,164,017).

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.

Dividends

The following dividends were paid during the current and previous year.

Date paid	Dividend per share	Total payment £000	Classification of dividend
31 December 2012	2.0 pence	1,628	PID

Under the REIT legislation, the Company's dividends are divided into two components, known as Property Income Distributions ("PID") and non-Property Income Distributions ("non-PID").

C9. Disposal of shares in subsidiaries

During the year the Company disposed of two subsidiaries, NOS 2 Limited and NOS 3 Limited by the sale of their entire share capital.

The profit on sale included in the profit and loss account was calculated as follows:

	£000
Sales proceeds	11,100
Deduct:	
Carrying cost of investments	11,584
Assets not disposed	(1,369)
Fees and other costs	817
	11,032
Profit	68

The difference between the profit\(loss) on disposal in the Company accounts and the consolidated accounts is due to differences between the net assets of NOS 2 and NOS 3 at the date of disposal and the carrying costs of the investments in The Local Shopping REIT plc.

Glossary

Adjusted Net Asset Value ("Adjusted NAV") per share
Adjusted NAV is calculated as shareholders' funds, adjusted by the fair value of the derivative financial instruments held on the Balance Sheet, divided by the number of shares in issue at the year end, excluding treasury shares.

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).

Funds From Operations ("FFO")
FFO is a term adopted by the National Association of Real Estate Investment Trusts. It is calculated as net income adjusted for depreciation of investment properties and gains/losses on sales of investment properties.

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.

Interest Cover
Interest cover can be calculated in a number of ways. The Group interest cover given in the Finance Review is based on the percentage of times gross rental income covers financing expenses.

Actual and Forecast Interest Cover Test (ICR)
The ICRs given in the Finance Review are calculated in different ways by each bank, as defined in the loan facility agreements. Each bank has a charge on a specific pool of property their loan relates to and the ICRs are calculated based on the gross rental income, less an adjustment for unrecoverable costs compared to the interest charged on that loan for that particular pool of assets.

Interest Rate Swap
An interest rate swap is a financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are used by the Group to convert floating rate debt to fixed rates.

Investment Property Databank Ltd ("IPD")
IPD produces an independent benchmark of property returns.

Initial Public Offering ("IPO")
An IPO is the first sale of shares by a privately owned company on a Stock Exchange. LSR issued its shares for sale on 2 May 2007.

London Interbank Offered Rate ("LIBOR")
LIBOR is the interest rate charged by one bank to another bank for lending money.

Loan-to-value ("LTV")
Loan-to-value is the ratio of debt, excluding any mark-to-market adjustments, to the value of investment properties.

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.

Recurring Profit
Recurring profit is calculated by adjusting the statutory IFRS reported result for: the movement in the fair value of the property portfolio; the movement in the fair value of financial derivatives held; any profit or loss realised on the sale of properties or other fixed assets; and other one-off, non-recurring income or costs incurred which are not considered to be sustainable or of a recurring nature.

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

Registered Office
The Local Shopping REIT plc
INTERNOS GLOBAL INVESTORS
65 Grosvenor Street
London, W1K 3JH

Telephone: +44 (0)20 7355 8800
Registration number: 05304743
Website: www.localshoppingreit.co.uk

Directors
Stephen East
Steven Faber
Nicholas Vetch

Company Secretary
William Heaney

Finance Advisers
JP Morgan Cazenove
25 Bank Street
London, E14 5JP

Solicitors
Eversheds LLP
One Wood Street
London, EC2V 7WS

Olswang LLP
90 High Holborn
London, WC1V 6XX

DWF Biggart Baillie LLP
No. 2 Lochrin Square
96 Fountainbridge
Edinburgh, EH3 9QA

Auditors
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham, B4 6GH

Valuers
Allsop LLP
33 Wigmore Street
London, W1U 1BZ

Registrar
Equiniti Limited
Aspect House
Spencer Road
Lancing, BN99 6QQ

Principal Bankers
HSBC Bank plc
8 Canada Square
London, E14 5HQ

The Royal Bank of Scotland plc
Level 8
280 Bishopsgate
London, EC2M 4RB

Key dates and other important information are available on our website: www.localshoppingreit.co.uk

Registered Office

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

Telephone: +44 (0)20 7355 8800
Registration number: 5304743
Website: www.localshoppingreit.co.uk