the
Local Shopping
REIT plc

Annual Report
for the year ended 30 September 2012
Stock Code: LSR

MAKING PROPERTY WORK

What we do . . .

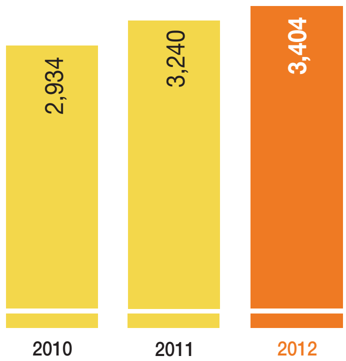
The Local Shopping REIT plc (“LSR”) is a Real Estate Investment Trust that provides investors with access to a diversified portfolio of local shopping assets in urban and suburban centres throughout the UK.

Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or “top-up” shopping. As at 30 September 2012 the Company’s directly owned portfolio comprised 644 properties, with over 2,000 letting units.

The Company aims to provide shareholders with an attractive and growing level of income with the potential for capital growth through active management. In addition, the Company deploys its unique set of specialist asset management skills in the management of third party assets and joint ventures, building upon its current mandates with a number of leading institutions.

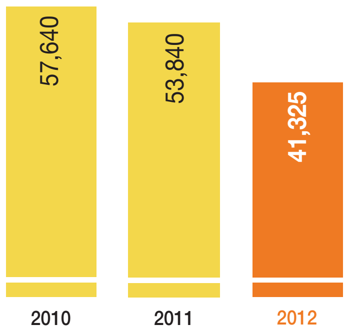
Recurring profit* £000

↑ 5.1%



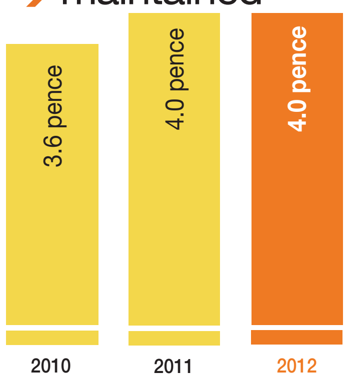
Adjusted net asset value £000

↓ 23%



Dividend per share

→ maintained



What is a REIT?

Real Estate Investment Trusts (REITs) 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 4 and 5

See further information online:

www.localshoppingreit.co.uk

* A reconciliation of recurring profit to loss before tax in the Income Statement is given in the Finance Review.

Financial Highlights

- Recurring profit* increased by 5.1% to £3.4m or 4.2 pence per share (2011: £3.2m or 4.0 pence per share) with a loss before tax of £9.2m or 11.3 pence per share (2011: loss of £0.7m or 0.9 pence per share)
- Market value of the portfolio of £177.2m (2011: £189.2m)
- Net Asset Value (NAV) of £41.3m or 50 pence per share (2011: £53.8m or 65 pence per share)
- Adjusted NAV of £50.4m or 61 pence per share excluding liabilities arising from derivative financial instruments (2011: £63.1m or 76 pence per share)
- Annual rent roll of £15.9m (2011: £16.2m) with like-for-like rent down 1.7% (2011: up 0.7%)
- Debt and financial management:
  - Total net debt of £130.9m, reflecting an LTV of 73.5%, with no on-going loan-to-value default provisions on the fully drawn facilities (excluding the £10.5m HSBC term loan) and low interest cover tests across all loans
  - £25.5m of undrawn facilities as at 30 September 2012
  - Debt free properties valued at £17.0m
  - No refinancing due until April 2016
- Total dividend for the year maintained at 4.0 pence per share (2011: 4.0 pence per share)

* A reconciliation of recurring profit to loss before tax in the Income Statement is given in the Finance Review.

Operational Highlights

- Further progress in investing through our joint ventures and in growing funds under management for our investment management business:
  - £24.6m of acquisitions during the year for our joint venture with Pramerica Real Estate Investors, with another asset acquired for £3.2m following the year end, bringing the total investments completed to date to £39.5m. Two further properties currently under offer for a combined £3.1m
  - Eight properties acquired for a total purchase price of £4.9m on behalf of the £60m unlisted fund established in partnership with Schroders, since its creation in March, with a further ten assets under offer for a combined purchase price of £12.5m
- Significant rise in the annual rent roll of distressed assets managed on behalf of three UK lenders to £2.9m (2011: £0.9m)
- Overall void rate is 10.9% (2011: 10.6%), of which 2.5% of the total were deliberate:
  - 107 vacant commercial units let at an annual rental income of £1.0m (2011: 130 units let at £1.2m per annum), of which 45 were let in the second half producing £394,826 per annum
  - 205 rent reviews with an average rental uplift of 3.1% (7.7% above Market Rent) increased income by £84,622 per annum
  - 40 lease renewals secured in line with previous passing and Market Rent
  - Rental deposits remained broadly constant at £927,000 or 23.3% of the quarterly rent roll (2011: £970,000)
  - Eight newly constructed flats let, adding a further £49,800 per annum to rent roll
- Solid progress made with the Company's strategy of divesting ex-growth properties, with the sale of 11 assets (including five flats) during the year, five of which were sold during the second half for £0.7m, showing a 8.8% surplus over the 31 March 2012 valuation. Since the year end, two further flats have been sold for a total of £0.2m
- Planning consent secured for 12 flats, a 12,000 sq ft extension to an existing food store in St Helen's and the subdivision of one property into two smaller retail units. Change-of-use consents to higher value uses obtained on six units to improve their letting prospects
- Construction completed on 12 flats, eight of which are now leased (see above) and a further three sold, with six other flats under construction
- Strategic review launched on 12 November 2012 to consider all strategic options available to the Company to maximise value for shareholders

For more information on **Our Performance in 2012** see pages 9 to 17

Our Strategy

Our investment objective is to provide our shareholders with an attractive level of income with the potential for income and capital growth.

Adding value for shareholders by:

1 Optimising the value of and income from our existing property assets

- Active management of tenancy void rate
- Generation of additional income through successful rent reviews and lease renewals
- Improving tenant mix
- Exploiting added-value alternative use opportunities

2 Using our unique business platform and management skills to grow revenue by:

- Sales of ex-growth properties to invest in new opportunities
- Acquisition of portfolios and private companies
- Growth of partnership vehicles aligned to our sector
- Advising and managing property assets for third parties including distressed situations

In executing our strategy, we seek to leverage our:

- Efficient internal management systems and controls
- Network of local agents, planning consultants, contractors and other advisers
- Technical and asset management skills
- Market knowledge and expertise in cost control and identifying development potential
- Relationships with the banking sector
- Experience in volume transactions

The local shopping market – what do others think?

Sainsbury's will create 10,000 new job opportunities in its convenience business over the next three years. The news is released on the day Sainsbury's opened its 500th convenience store, in Southsea, Hampshire.
Source: J. Sainsbury, 2012

Morrisons has set out plans to open 70 convenience outlets over the next two years.
Source: The Guardian, 2012

The range and quality of shops, places to eat and drink and other local businesses – the "commercial infrastructure" – is the strongest driver of satisfaction with the facilities and amenities in a neighbourhood.
Source: Association of Convenience Stores/ BritainThinks report, 2012

Technological, demographic and economic factors have changed, and will continue to change the way that our customers shop. Alongside the weekly shop and growing demand for online shopping in many communities, our customers tell us they want to shop more often, helping them to manage their budgets, reduce travel times and minimise food waste.
Source: J. Sainsbury, 2012

Neighbourhood parades provide essential opportunities for day-to-day convenience shopping and service access and make an important contribution to maintaining sustainable communities.
Source: Department for Communities & Local Government/Genecon LLP report, 2012

The convenience food retail market, which is growing at twice the rate of the wider market and now accounts for £1 in every £5 spent on groceries.
Source: The Guardian, 2012

Our Business Model

Wholly owned Portfolio

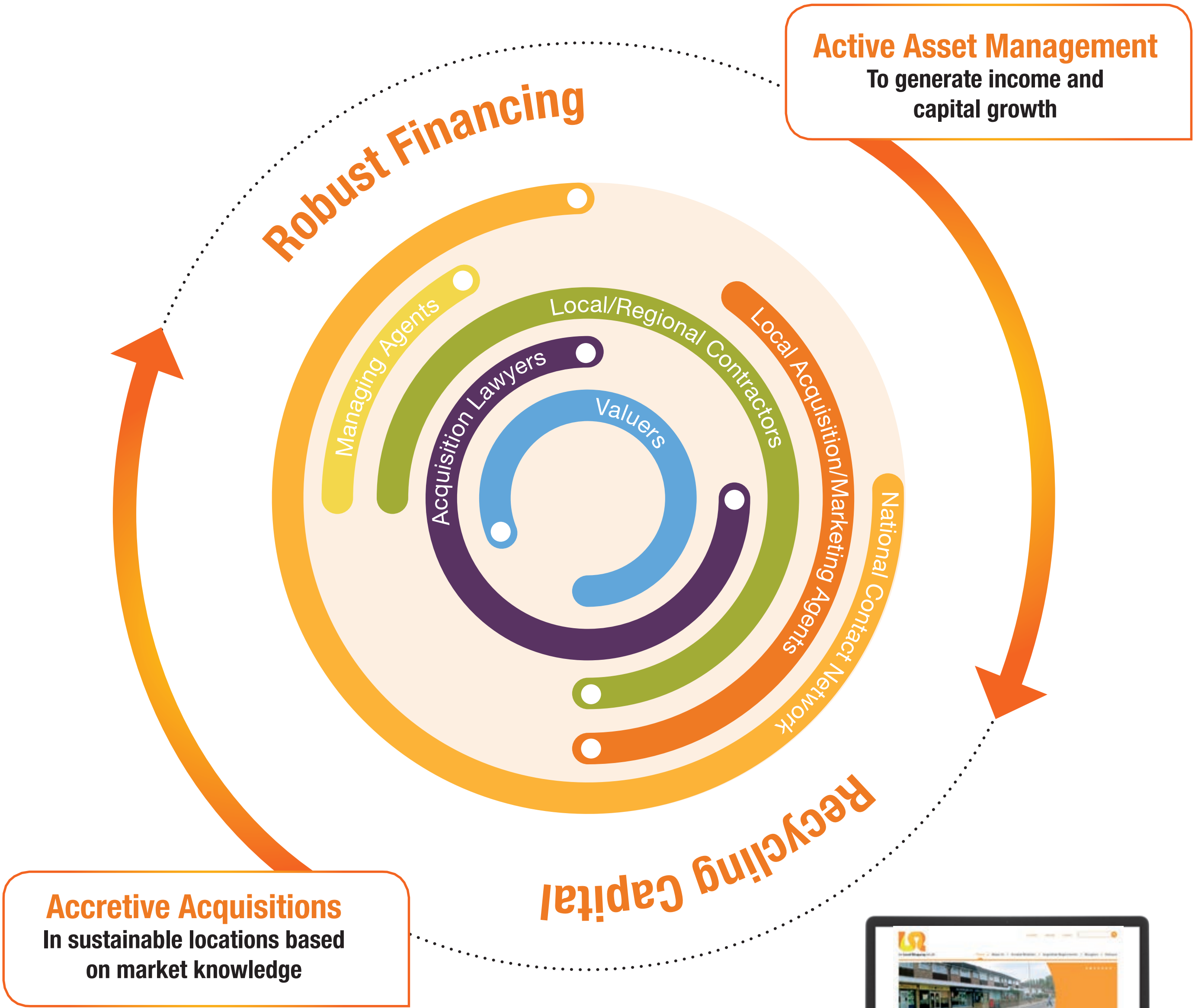
Continued to demonstrate strong asset management skills as evidenced by the stable void rate.

For more information on **Our Portfolio** see pages 4 and 5

Joint Ventures

Three Joint venture and investment arrangements now established and Three external management contracts agreed.

For more information on **Joint Ventures** see page 4



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

LSR at a Glance

Our Portfolio

Our directly owned portfolio was revalued at 30 September 2012 at £177.2m, reflecting an equivalent yield (excluding the residential element) of 9.31%. It now comprises 644 properties, with 2,043 letting units, and produces annual rental income of £15.9m.

Over the year as a whole, the portfolio Market Rent has held up well, falling only 0.45% compared with a fall of 0.64% during the previous financial year.

On a like-for-like basis, the portfolio value was down 6.00% over the period with the equivalent yield (excluding the residential element) moving out 48 basis points to 9.31%.

Joint Ventures

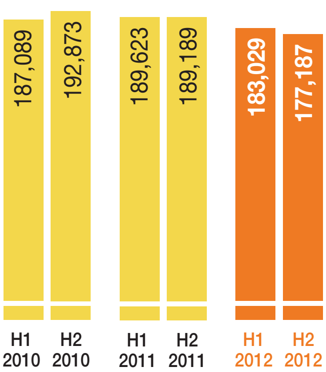
Our joint venture with Pramerica Real Estate Investors, to invest in retail parades and neighbourhood centres throughout the UK has continued to make good progress during the year, with the acquisition of 11 properties for a combined £24.6m.

Our "work out" JV with an established UK financial institution was set up in September 2011, with four properties acquired at inception for a combined £3.4m. We are continuing to review further opportunities to build upon this relationship.

Our partnership with Schroders, established in March 2012 to invest in convenience retail opportunities, has completed the acquisition of eight properties with a combined purchase price of £4.9m at a blended yield of 6.69% during the year.

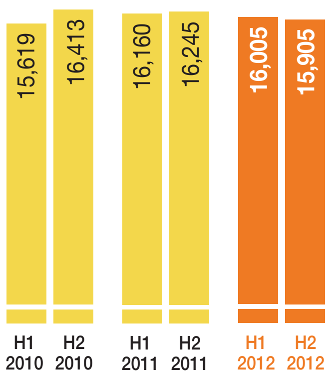
Portfolio Value £000

↓5.9%



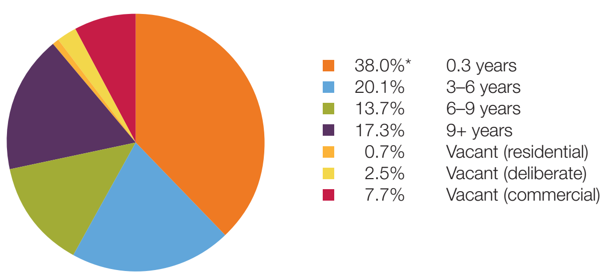
Portfolio Rent p.a. £000

↓2.1%



Lease Expiry Profile

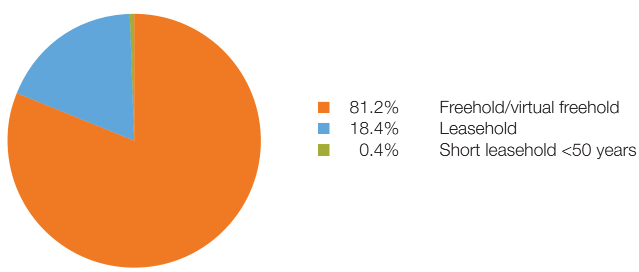
As a percentage of ERV



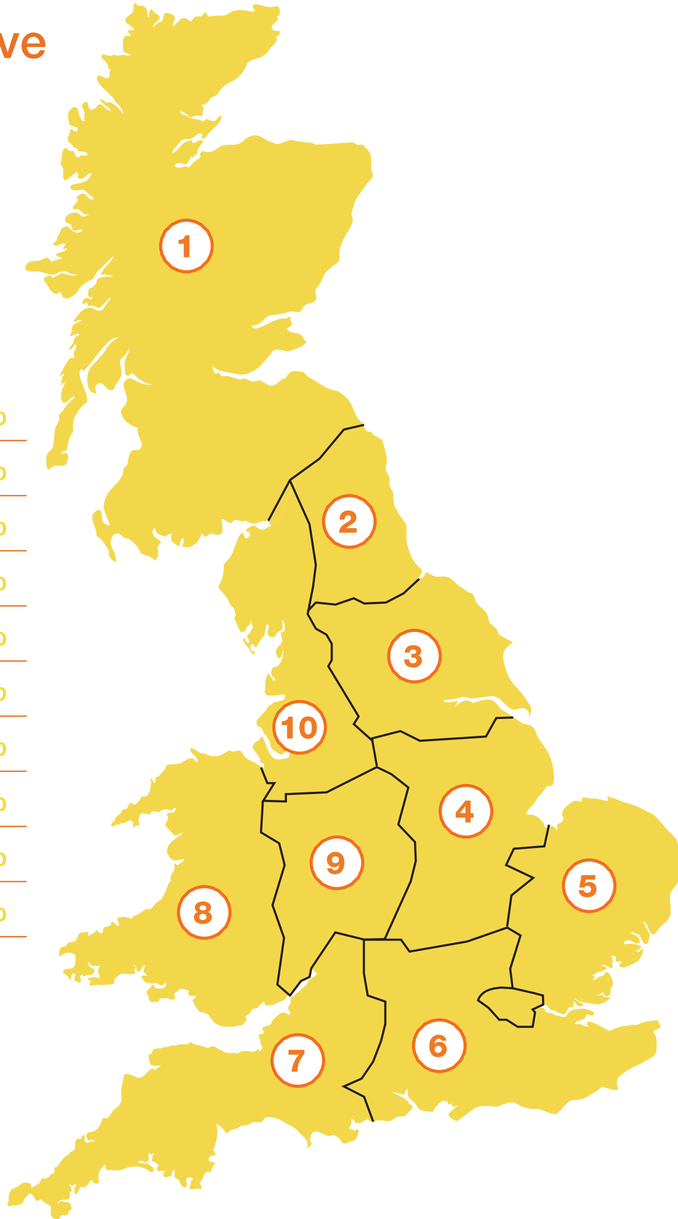
* 9.1% relates to residential AST leases

Tenure

As a percentage of valuation



Exploiting the potential of our property portfolio through active asset management



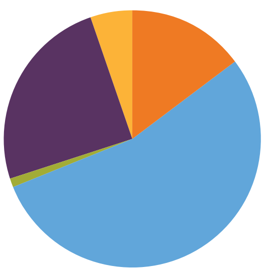
Geographical Spread

As a percentage of ERV

1	Scotland	12.3%
2	North	3.2%
3	Yorkshire & Humberside	8.7%
4	East Midlands	4.4%
5	East Anglia	4.8%
6	London and South East	25.9%
7	South West	13.7%
8	Wales	5.2%
9	West Midlands	6.8%
10	North West	15.0%

Tenant Grade

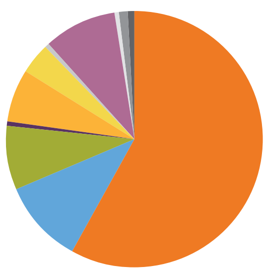
As a percentage of ERV



14.8%	Local company
54.2%	Individual
1.2%	Government
24.6%	National multiple
5.2%	Regional multiple

Planning Use

As a percentage of ERV



58.3%	A1 Shops
10.6%	A2 Financial
8.3%	A3 Cafés/restaurants
0.6%	A4 Pubs
6.3%	A5 Takeaways
4.0%	B1 Offices
0.2%	B2 Industrial
0.1%	B8 Storage
9.3%	C3 Residential
0.6%	D1 Institutional
0.9%	D2 Leisure
0.8%	Miscellaneous

Chairman's Statement

Performing well against a difficult and uncertain backdrop

In 2011–12 we achieved

- 107 lettings of vacant commercial units at an annual rental income of £1.0m
- 205 rent reviews with an average rental uplift of 3.1% (7.7% above Market Rent)
- Sales of 11 ex-growth assets (including five flats), showing an 8.8% surplus over the 31 March 2012 valuation
- £29.5m of acquisitions for our joint venture interests
- An increase in the annual rent roll of distressed assets managed on behalf of three UK lenders from £0.9m to £2.9m

For more information on **Our Performance in 2012** see pages 9 to 17

I am pleased to announce the Company's full year results for the 12 month period to 30 September 2012.

Introduction

On an operational level the Company continues to perform well in executing its strategy of optimising the value of, and income from, existing assets, as well as using its business platform and asset management skills to grow revenue.

By working the portfolio hard we have maintained the commercial void rate at 7.7% over the period and managed to keep the overall portfolio void rate broadly level at 10.9% (30 September 2011: 10.6%). Our successful asset management initiatives including residential conversions, reconfiguring units and securing change of use planning consents have helped mitigate a general market decline in property valuations over the year.

During the year we also made further encouraging progress in implementing the second element of our strategy: using our business platform and asset management skills to grow funds under management and thereby revenue. While we made no further acquisitions within our "work out" JV with an established UK financial institution, our JV with Pramerica Real Estate Investors made a further £24.6 million of acquisitions. In March 2012, we were pleased to announce the creation of a £60 million unlisted fund in partnership with Schroders to invest in convenience retail opportunities. Since its launch, we have purchased eight properties for the new fund with a combined purchase price of £4.9 million, and have a further active pipeline of investment opportunities. Over the period we have also seen a significant rise in the annual rent roll of distressed assets we manage on behalf of three UK lenders who recognise the value of our national coverage and specialist asset management skills. The rent roll of assets managed has increased from £0.9 million to £2.9 million with a resultant increase in asset management fees earned by the Group.

Results and Dividend

As a result of the successful implementation of both elements of our strategy I am pleased to report a 5.1% increase in recurring profit for the year to 4.2 pence per share (2011: 4.0 pence per share). This result was achieved despite a fall in rental income from our core portfolio and a rise in certain property operating costs, including the amount of empty rates payable over the period. However, this was countered by a fall in bad debt write-offs and a rise in asset management fee income which demonstrates the real value of our active asset management of the portfolio and the potential of new business initiatives to generate additional revenue. A reconciliation of the recurring profit to the loss before tax in the Income Statement is given in the Finance Review.

I am pleased to announce a dividend for the second half of the year of 2.0 pence per share bringing the total for the year to 4.0 pence per share in line with the prior year. However, in light of the recently announced strategic review discussed below, the Board will review the Company's dividend distribution policy when the outcome of the strategic review is known.

“As a result of the successful implementation of both elements of our strategy I am pleased to report a 5.1% increase in recurring profit for the year”

Grahame Whateley
Chairman

Pictured Durrington (Schroders partnership)

Pictured Paignton (wholly owned portfolio)

Portfolio comprises over **2,000** letting units

Rental income **£15.9m** per annum

The dividend will be paid by 31 December 2012 as a PID to shareholders on the register on 7 December 2012. This will take the total dividend paid for the year to 4.0 pence per share. The ex dividend date will be 5 December 2012.

Strategic Review
LSR was established with the aim of becoming a market leading owner of local retail property in the UK. While the Company has been demonstrably successful in its operational activities since its IPO in 2007, the Board believes that, given its current rating, due in part to its size and capital structure, and the challenge of creating a scalable business during a period of considerable property and financial market volatility, it is in the interest of shareholders as a whole to review options open to the Company.

The Board therefore announced on 12 November 2012 that it was launching a strategic review of the Company to consider how value can be maximised for shareholders. This review is being conducted by a committee of the Board comprising its non-executive directors. The Committee will consider all strategic options available to the Company, including alternatives within the status quo with the incumbent management team, external management proposals, strategic transactions such as a disposal of existing assets and corporate transactions such as a merger or a sale of the business.

Grahame Whateley
Chairman

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 2012. The Directors' Report comprises the information set out on pages 8 to 33.

The Company is a public limited company incorporated in England under registered number 05304743, with its registered office at 6th Floor, Palladium House, 1–4 Argyll Street, London, W1F 7TA.

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 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 and applicable law (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 in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Independent Auditor's Report is set out on page 34. 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/she 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 Business Review, Finance Review, Governance and the Remuneration Report together fulfil the requirement for an enhanced Business Review under section 417 of the Companies Act 2006. The Governance section is a statement for the purposes of the Disclosure and Transparency Rule 7.2.1.

Principal activities

During the year the Group continued its activities in the investment in and management of properties throughout the United Kingdom, principally in local and convenience shopping assets.

Investment Policy

The Company's investment objective is to provide its shareholders with an attractive level of income with the potential for income and capital growth. It seeks to achieve this through:

- investing in local real estate assets in the United Kingdom;
- exploiting the potential of its property portfolio through active asset management; and
- making use of its specialist skills and market position to engage in joint ventures, partnerships and management contracts.

Our portfolio typically comprises neighbourhood and convenience shops that are well established in their local communities, although we will invest in new developments of local shops where these are supported by existing or newly built residential property. The shops trade across all retail planning consents and we avoid concentration of risk in a particular retail sector. Our intention is to maintain a high level of diversification. We believe in sustaining the local trading community nationwide and dealing with all our stakeholders in a fair and open manner. Our joint venture investments with established financial institutions and third party asset management contracts are an increasingly important contributor to shareholder returns.

The Company currently has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of drawdown.

In the review below, as well as providing an

Business Review

"In contrast with much of the wider retail market, where discretionary spend is under pressure, the occupier market for local shopping remains relatively healthy with demand from both national and local retailers"

Mike Riley Joint CEO

Nick Gregory Joint CEO

Combined Portfolio

Value	£177.2m
Initial Yield	8.47%
Reversionary Yield	9.18%
Equivalent Yield*	9.31%
Rent p.a.	£15.9m
Market Rent p.a.	£17.2m

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0 – £100k	167	12.2	9.90%
£101k – £200k	228	32.2	9.41%
£201k – £500k	161	51.5	9.38%
£501k – £1m	64	42.6	9.30%
£1m – £3m	22	32.4	9.06%
£3m +	2	6.3	8.33%
Total	644	177.2	9.31%

* Excluding residential element.

The table above illustrates the range of property values throughout the portfolio. The average property value is £275,134 and the median is £150,000. The residential element of the portfolio has been valued at £18.0m, based typically on 85% of vacant possession value. The average value of the residential units in our portfolio remains low, at just above £56,000.

overview of the business activities over the last 12 months, we also make comment, where appropriate, on the progress made since the portfolio was last valued on 31 March 2012.

Results and Net Asset Value

During the year, the Company achieved a £0.2m increase in recurring profit to £3.4m (4.2 pence per share), up from £3.2m (4.0 pence per share) in 2011. This has largely been achieved through an increase in the asset management income earned from joint ventures and a reduction in certain property operating costs. This is discussed in more detail in the Finance Review where a reconciliation of recurring profit to the statutory result is also provided.

In addition, the Group has earned £0.1m in one-off acquisition fees from the joint ventures in connection with the purchase of properties by these ventures.

The net asset value of the Group has fallen in value over the 12 month period by £12.5m to £41.3m. This is largely as a result of the decline in the value of the portfolio. The resultant decrease in NAV per share is 15 pence, down to 50 pence per share compared to 65 pence at 30 September 2011. The adjusted net asset value per share (adjusted for the fair value of the swap agreements) has fallen to 61 pence per share compared to 76 pence in 2011.

Portfolio Performance

Our wholly owned portfolio was revalued at the year end at £177.2m, reflecting an equivalent yield (excluding residential element) of 9.31%. It now comprises 644 properties, with 2,043 letting units, and produces annual rental income of £15.9m.

Business Review continued

Like-for-like portfolio – adjusted for part sales

	30 September 2012	30 September 2011	Change
Value	£175.9m	£187.1m	-6.00%
Initial Yield	8.47%	8.18%	+29 bps
Reversionary Yield	9.17%	8.76%	+41 bps
Equivalent Yield*	9.31%	8.83%	+48 bps
Rent per annum	£15.9m	£16.2m	-1.66%
Market Rent per annum	£17.2m	£17.3m	-0.45%

* Excluding residential element.

Over the year as a whole, the portfolio Market Rent has held up well, falling only 0.45% compared with a fall of 0.64% during the previous financial year. However, as a result of the small rise in the void rate over the period, coupled with the granting of nine rent concessions to struggling tenants in locations where we would prefer not to take back units (two of which, to Peacocks and Superdrug, accounted for 75% of the total conceded amount), like-for-like rent fell 1.66% compared with an increase of 0.65% in the year to 30 September 2011.

On a like-for-like basis, the portfolio value was down 6.00% over the period with the equivalent yield (excluding the residential element) moving out 48 basis points to 9.31%. Our well-let properties and those in the more southern parts of the UK held their value reasonably well, underpinned by demand from cash rich private investors. Elsewhere, investor demand was patchy and not helped by the withdrawal of a number of major lenders to the sector over the period. The consequent fall in values in these regions was a significant driver behind the decline in the overall portfolio valuation (Scotland, Wales and the North were the worst performing regions in valuation terms within the LSR portfolio, while London was by some way the best with the equivalent yield moving out only three basis points).

Investment Market

Private investors, faced with low interest rates, continue to invest in smaller lot sized properties in order to satisfy their requirement for income. Auction markets provide a helpful indicator of the strength of the private investor market. Over the year, sales volumes and success rates have remained healthy, particularly for properties let to robust national covenants on longer leases, or for properties located within southern or other affluent parts of the UK. Elsewhere, demand from private investors is weaker and realistic pricing is the key to achieving sales. This weakening of demand has driven values down over the course of the year. The withdrawal in recent months of a number of key lenders to investors in smaller lot sized properties has had a further negative impact on the amount of money private investors and smaller property companies have available for investment. Despite this, low interest rates look to be broadly supportive of current valuation levels and this has encouraged owner-occupiers to consider purchasing rather than renting. We have seen the impact of this within our own portfolio, with increased interest from owner-occupiers and our existing tenants in acquiring their premises.

With the banking sector still needing to carry out a substantial de-leveraging, driven by increasingly stringent capital requirements, we have seen some increase in the volume of bank-led sales coming to the market during the course of the year. However, the inability or unwillingness of banks to make appropriate write-downs has often led to a mismatch between the pricing expectations of buyers and sellers which, in turn, has led to a number of abortive sales. As a result, we have seen an increasing realisation amongst lenders over recent months that, in addition to implementing programmes of individual property, portfolio and loan books sales, market conditions mean they must also adopt longer term asset management-led solutions for the distressed properties on their books. With our national coverage, extensive network of local agents and specialist asset management skills as well as our understanding of the dynamics of property lending, LSR is well placed to assist lenders in implementing these longer term asset management strategies.

Acquisitions and Sales

While we believe the current market offers a strong pipeline of accretive investment opportunities, we continued to focus our acquisition efforts during the period on buying properties for our Pramerica JV and on behalf of our local retail fund with Schroders. However, during the year, we did purchase one property in Ayr for £0.3m at a 7.32% net initial yield. The property is adjacent to an existing ownership and there is potential to combine both units at a future date to create a larger unit suitable for a convenience operator.

In line with our ongoing policy, we continued to make progress in selling ex-growth properties. During the year, we sold six commercial properties and five flats for a total of £2.3m, representing a 13.9% premium to valuation. Five of these were sold during the second half of the year for £0.7m showing an 8.8% surplus over 31 March 2012 valuations. Since the year end, we have completed the sale of two flats in Poole and Warwick for a combined £0.2m.

Occupier Market

A backdrop of weak domestic growth, inflation above the Bank of England's target, substantial cuts to public spending and instability within the Eurozone are all having a major bearing on occupier markets. The resulting squeeze on disposable income and the knock-on

"Despite the challenging economic backdrop, our flexible leasing policy, supported by our extensive network of local letting agents and hard work from our asset managers, has enabled us to maintain a stable void rate over the course of the year"

adverse impact on consumer confidence has placed severe pressure on many traditional high street retailers whose business models rely on discretionary spend. Such retailers are faced with ever-growing competition from the Internet, out-of-town developments and the larger regional shopping centres. As a result, trading conditions remain extremely challenging and, over the course of the year, we have witnessed the failure of several prominent high street brands. However, in contrast with much of the wider retail market, the occupier market for convenience-led local shopping remains relatively healthy, with demand from both national and local retailers. This is evidenced within our portfolio by the 107 lettings completed during the year with an annual rent roll of approximately £1m to tenants ranging from local hairdressers (making up the most common category, closely followed by takeaway outlets) to national convenience store operators whose demand for space continues unabated. In addition, we believe rents within the local shopping market remain affordable, with the average shop rent in our portfolio only £11.07 per sq ft, or £12,000 per annum (£231 per week).

Despite the challenging economic backdrop, our flexible leasing policy, supported by our extensive network of local letting agents and hard work from our asset managers, has enabled us to maintain a stable void rate over the course of the year.

Key Performance Indicator – Void Rate

	30 September 2012	31 July 2012	31 March 2012	31 January 2012	30 September 2011
Vacant – Commercial	7.7%	7.8%	7.6%	7.6%	7.7%
Vacant – Deliberate	2.5%	2.4%	2.2%	2.2%	2.3%
Vacant – Residential	0.7%	0.8%	0.8%	0.9%	0.6%
Total	10.9%	11.0%	10.6%	10.7%	10.6%

Our success in letting vacant commercial units while keeping on top of tenant turnover has kept the commercial void rate level at 7.7% as at 30 September 2012. The level of deliberate voids has risen, as anticipated, to 2.5% (30 September 2011: 2.3%) as we continue to look for opportunities to add value to our portfolio through reconfigurations and change of use (particularly the conversion of redundant upper floors above shops into flats). Managing a geographically diverse portfolio of 321 flats provides its own opportunities and challenges and, during the year, we carried out 147 new lettings, 218 tenancy extensions, refurbished 44 flats and carried out a further 590 minor repairs. As a result of these initiatives and hard work the residential void rate has also been stable over the period, ending the year at 0.7% (30 September 2011: 0.6%).

Although our retail tenants predominantly supply the convenience and top-up shopping needs of local communities, the difficult economic backdrop means bad debts are inevitable. However, we are pleased to report that our continuing strong focus throughout the year on credit control has led to a fall in our bad debt write-offs for a third year in a row. During the year, bad debt write-offs fell by 15.2% to £684,352, compared with £806,632 in the previous financial year. We continue to take a robust approach to debt recovery and our success in letting vacant space gives us the confidence to take back units where tenants are in financial difficulty so we can re-let them and improve the quality of our cash flow. However, we also recognise that there may be occasions

PROJECT

Separation of double retail unit and conversion of the upper parts to residential

Braintree

- Double unit with ancillary first floor accommodation
- Planning consent achieved for two residential flats and two retail units
- Total conversion and fit out costs: £97,187
- Previous rent £20,000 p.a.
- One shop and two flats let at total rent £23,700 p.a. with remaining shop under offer at £10,000 p.a.

Business Review continued

"Our nationwide coverage, extensive network of local agents and specialist asset management skills are well recognised in the market. This has led to our appointment by three lenders to manage distressed situations on their behalf"

PROJECT

Conversion of upper parts

Church Street, Warwick

- Grade II listed building with unused upper floors
- Planning consent achieved for five residential flats
- Project included provision of air source heat unit for each flat
- Total conversion costs £241,000
- End value £659,000 – increase in value £441,000
- Three flats sold to date for aggregate £409,000

when it is sensible to let a tenant remain in occupation at a reduced rent in order to mitigate our outgoings, particularly our liability for empty rates, if the local letting market is challenging.

When we let units to independent tenants or deal with assignments and sub-lettings, it is our policy to seek rent deposits of between three to six months. The value of deposits held at 30 September 2012, totalled approximately £927,000 (30 September 2011: approximately £940,000) or 23.3% of our quarterly rent roll. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

Asset Management

LSR's reputation for being able to add value to smaller commercial properties located throughout the UK is widely recognised and has led to us being appointed both as a JV partner and as a manager of distressed assets. We are pleased to report that we continue to achieve strong results by applying these asset management skills to our wholly owned portfolio.

Despite challenging trading conditions, demand for local shops remains firm. During the year to 30 September 2012, a pragmatic approach to leasing allowed the Company to let 107 vacant commercial units at a total rent of £997,649 per annum (compared to 130 units let at £1,210,240 per annum during the previous year). Despite the disruption to market activity caused by a summer of Jubilee and Olympic festivities we managed to let 45 of these during the second half of the year at a total rent of £394,826 per annum. Over the full year the units were let, on average, at just 0.8% below Market Rent. However, this average does not take account of 21 new lettings which incorporated stepped rent increases, which we have excluded from our comparison. These 21 lettings were secured at an initial rent of £214,143 per annum rising to £257,230 per annum over the first three years of their leases, compared with a Market Rent of £234,690 per annum. The remaining 86 units were let at a 1.6% premium to Market Rent.

Given the majority of our tenants are independent traders, and with our focus on maximising cash flow, we prefer to deal with letting incentives by way of these stepped rents, rather than by granting protracted rent free periods. Our average rent free period on lettings completed during the year was just 69 days. The letting pipeline also remains healthy with 16 units under offer as at 30 September 2012, for a combined rental of £208,700 per annum.

Growing rents at rent review and particularly at lease renewal is a challenge in the current market. However, over the year, rent reviews on 205 units increased rental income by a total of £84,622 per annum, reflecting an average uplift of 3.1%, and 7.7% above Market Rent. Lease renewals on 40 units were carried out in line with both previous passing rent and Market Rent, thereby maintaining income.

As mentioned above, we continue to extract value from under-used and poorly configured properties. In February we obtained planning permission for the subdivision of a large retail unit in Birkenhead into two letting units. We took a surrender of the previous occupier's lease (an independent carpet retailer) who was paying a rent of £38,000 per annum. Demonstrating the active demand from national convenience retailers in our market, we simultaneously signed an agreement for lease with Tesco to take approximately two-thirds of the space on a 15 year lease at £48,000 per annum, leaving us with an additional unit to let with a market rent of £18,000 per annum. In May we received consent for a 12,000 sq ft extension to an existing food store in St Helens following extensive consultation with the local community. In addition, we obtained six change of use consents from class A1 (shops) to higher value uses in order to improve their letting prospects. Five of these have subsequently been let at 10.8% above Market Rent and the remaining unit is currently in solicitors' hands.

69 days: the average **rent free** period of new lettings of our commercial units

During the year we also secured planning consent for 12 flats in the upper parts of four retail properties. In line with our ongoing policy we will build these out if we can secure an acceptable rental yield following conversion. During the year we completed the construction of 12 flats over four separate projects and the split of a large flat in Paignton into two smaller units. Since completion, eight of these flats have been let at a combined £49,800 per annum, three have been sold and three remain on the market for sale or to let. A further six flats are currently under construction.

Working with Banks

One element of our current strategy is the management of distressed assets. Our nationwide coverage, extensive network of local agents and specialist asset management skills are well recognised in the market. This has led to our appointment by three lenders to manage distressed situations on their behalf. During the year, further properties were added to our mandates which has brought the annual rent roll of properties under management to just over £2.9m (30 September 2011: £0.9m).

Joint Ventures and Investments

A second element of our current strategy is to seek to grow the business through the creation of joint ventures.

Our first such JV, with Pramerica Real Estate Investors, was established in November 2010 to invest in retail parades and neighbourhood centres throughout the UK. Since 30 September 2011 we have continued to make good progress with our acquisition programme, completing the purchase of 11 properties for a combined £24.6m. Since the year end we have acquired a further property in Frodsham, Cheshire for £3.2m, bringing the purchase price of deals completed to date to £39.5m. The properties acquired are a mix of newly developed and established parades and neighbourhood centres. The largest of these acquisitions was the forward funding of the 50,000 sq ft Halewood District Centre in Liverpool for £7.2m which has now reached practical completion.

A further two properties are under offer for a combined £3.1m. These potential acquisitions are likely to be the last for the JV as it moves out of its investment phase. In order to finance the completed acquisitions, we have drawn down £21.0m from the JV's HSBC facility, of which we have hedged £9.3m, resulting in an overall average interest rate of 3.1%.

As previously announced, our second "work out" JV with an established UK financial institution was set up in September 2011. Four properties were acquired at inception for a combined £3.4m. One of these properties, a tyre service depot in Glasgow, was sold on 28 September 2012 for £1.3m against a purchase price of £1.1m. We are continuing to review further opportunities to build upon this relationship.

Our third such venture was an 8.3% investment in a new £60m unlisted fund in partnership with Schroders in March 2012 to invest in convenience retail opportunities. The fund will be ungeared with an income focus and has a five year life. It will target convenience retail stores, such as Tesco Express and Sainsbury's Local, either stand-alone or with adjacent units let to national multiples and local retailers with an anticipated average net initial yield of 6.5%. The fund will also be seeking to identify properties which will offer additional asset management opportunities for LSR to exploit and to enhance each asset's capital value and income stream. During the financial year, the fund completed the acquisition of eight properties with a combined purchase price of £4.9m at a blended yield of 6.69%. A further ten properties with a combined purchase price of £12.5m are under offer.

In view of the strategic review, the Company suspended its commitment to further funds to all of its joint ventures and investments and this has resulted in a breach of the terms of one of the partnership agreements. The Company however continues to work collaboratively with its joint venture and investment

Business Review continued

"We believe that the nature of our investments – principally in shops that serve their local communities – is a positive force for both the environment and social activity"

PROJECT

Completion and letting of forward-funded scheme for joint venture:

Halewood Shopping Centre

- Development acquired for Local Parade Investments LLP
- Completed on time and budget
- 92% of floor space now let
- Strong tenant line-up, including Aldi, Iceland, Tesco and Ladbrokes

partners to ensure that they continue to be managed for the benefit of the Company's shareholders. For clarity, the Company has in aggregate approximately £5.6m invested to date within all three of its joint ventures and investments.

Business Outlook

The current low level of interest rates provides support to values in our sector as private investors seek income from their investments. However, even within the local shopping sector, economic instability has led to a "flight to quality" with investors focusing their purchasing on long leased properties to good covenants and assets in the more southern parts of the UK. Elsewhere, demand is patchy and the withdrawal of a number of major lenders to the sector over the period has further reduced the amount of capital available for investment in these areas, putting pressure on valuations. This weakness is providing many compelling opportunities to acquire sustainable local retail assets at accretive yields which we have been able to capture through our Pramerica JV and, more recently, for our fund with Schroders.

Market conditions during the year remained challenging. A backdrop of weak domestic growth, inflation above target, substantial cuts to public spending and instability within the Eurozone are all having a major bearing on occupier markets. However, in contrast with much of the wider retail market, where discretionary spend is under pressure, the occupier market for local shopping remains relatively healthy, with demand from both national and local retailers. This demand is more broadly spread throughout the UK as retailers everywhere seek to tap into an increasing demand for local retail driven by higher fuel costs, "just in time" shopping and an increasing desire from consumers for convenience. LSR is well placed to benefit from this trend with its expertise and track record in the sector, national convenience retailer contacts and extensive network of local agents active in their markets.

Over the period we have continued to acquire properties for our JV with Pramerica and are now switching our efforts to implementing our asset management plans as we move out of the investment phase. During the course of the year we set up our fund with Schroders to invest in convenience retail opportunities and, together with an increase in properties under management for three UK lenders, there is now a solid platform in place.

However, despite further encouraging operational progress, which has resulted in another year of increased recurring profit, the Company recognises it faces a number of challenges. The Chairman's statement notes that, having reflected on the performance of the Company since its IPO in 2007, the Board announced on 12 November 2012 that it was undertaking a strategic review of the business to consider how value can be maximised for shareholders. While this process is ongoing, the LSR team remains committed to optimising the value of, and income from, its existing assets.

Community and Partnerships

We recognise our responsibilities as an owner and manager of assets within the built environment. We believe that the nature of our investments – principally in shops that serve their local communities – is a positive force for both the environment and social activity and we seek constructive dialogue with local authorities and other stakeholders in relation to any environmental or social and community issues that present themselves.

Our network of national, regional and local agents remains central to our business model and we are grateful to them, and to our excellent team of corporate advisers, for their continued support. We would also like to take the opportunity to thank all of our staff who have contributed to our business performance over the past year.

Mike Riley & Nick Gregory
Joint Chief Executive Officers

Finance Review

Victoria Whitehouse Finance Director

The financial statements have been prepared in accordance with International Reporting Standards ("IFRS"). During the year, as described in the Business Review, the Group has invested in an unlisted fund in partnership with Schroders which has resulted in the adoption of a new accounting policy. This policy is described in the basis of preparation note provided in the Notes to the Financial Statements in the latter part of this announcement.

Key Performance Indicators

The following 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 2012	30 September 2011
Interest cover*	209%	215%
Loan to value (LTV) ratio†	73.5%	68.5%
Adjusted NAV per share‡	61p§	76p§
Gearing (net of cash held)	317%	234%
Recurring profit per share¶	4.2 pence	4.0 pence

* Based on rental income compared to interest payable.

† Net of cash held.

‡ Based on 82,505,853 shares in issue at 30 September 2012 (2011: 82,505,853).

§ Adjusted to exclude the fair value of financial derivatives.

¶ Based on 81,409,308 shares on which a dividend is paid (2011: 81,391,764).

Recurring Profit

The performance of the Group's underlying operating business, including the increased provision of asset management services to third parties and entities in which the Group has invested, again shows an improvement on the previous year.

The recurring profit for the year was £3.4m (2011: £3.2m). The calculation of recurring profit remains consistent with previous years. It also includes the Group's share of the recurring results of the joint ventures in which the Group has invested. A reconciliation of the loss before tax to the recurring profit is as follows:

	30 September 2012 £000	30 September 2011 £000
Loss before tax	(9,178)	(710)
Movement in fair value of the portfolio	12,165	3,843
Movement in the fair value of the interest rate swaps held	(216)	131
Profit on sale of investment properties	(84)	(51)
Non-recurring income	(130)	(92)
Non-recurring expenditure	506	122
Non-recurring income and expenditure incurred by the joint ventures	341	(3)
Recurring profit	3,404	3,240

Finance Review continued

Non-recurring income includes the one-off acquisition fees received from the joint ventures when properties are purchased by these vehicles. Non-recurring expenditure includes: the charges incurred for cancelling part of the HSBC term loan; professional advisers' fees incurred in connection with the exploration of a potential transaction which was considered by the Company earlier in the year; and fees incurred in connection with the set-up of the joint ventures.

The Group's dividend policy has previously been the payment of 100% of recurring profits. In light of the recently announced strategic review, the Board will review the Company's dividend distribution policy when the outcome of the strategic review is known. In the interim, it has been decided to maintain the level of dividend paid.

The recurring profit per share is 4.2 pence (2011: 4.0 pence) for the year. A dividend will be paid of 2.0 pence per share (2011: 2.1 pence) by 31 December 2012 to shareholders on the register at 7 December 2012 which, together with the dividend of 2.0 pence per share (2011: 1.9 pence) which was paid on 30 June 2012, takes the total dividend for the year to 4.0 pence per share (2011: 4.0 pence). As in previous years, the Employee Benefit Trust will waive its right to a dividend.

Dividends distributed by REITs are known as PIDs and non-PIDs. The dividend to be paid by 31 December 2012 will be a PID. The allocation of future dividends between PID and non-PID may vary.

Results
The Group has recorded a loss before tax for the year of £9.2m, mainly as a result of the write-down of the fair value of the property portfolio, which is recorded in the Income Statement, in accordance with IFRS.

Rental income has fallen in the year as a result of: the sale of a number of properties, a small increase in the void rate and the granting of nine rent concessions to tenants.

Property operating costs have fallen during the year. As in previous years, various elements of these costs have increased whilst others have fallen. The additional cost reflecting the full impact of the removal of empty rates relief on vacant properties in April 2011 has been incurred in the current year. However, letting costs have fallen in the year under review compared to the prior year. As previously described, these costs are highly dependent on the turnover of tenants and the ability to use Law Society leases as opposed to engaging third party lawyers to complete the lettings. As described in the Business Review, the bad debt charge for the year has fallen considerably.

Administrative expenses increased during the year. As described above, £506,000 relates to one-off non-recurring expenditure. Once adjustment is made for these non-recurring costs, administrative expenses remain broadly in line with previous years.

Net other income grew in the year as a result of the acquisition fees and management fees received from the joint ventures and third party asset management contracts undertaken by the Company. Included in other expenses are any costs directly attributable to these asset management activities.

Interest payable increased year on year as further funds were drawn down to invest in the existing portfolio, the new joint ventures and investments. An additional write-off of the loan arrangement fees carried on the Balance Sheet has been made following the part cancellation of one of the loan facilities. The Group continues to hold the same interest rate swaps as in 2011 subject to the £200,000 per quarter amortisation of one of the contracts.

The liability arising from these swaps has remained constant compared with 2011, with only a £0.2m credit charged to the Income Statement for the year.

Net Assets
The net assets of the Group have fallen to £41.3m at the year end, compared to £53.8m in 2011. The fall is largely as a result of the decline in the fair value of the portfolio.

During the year, further investment was made in the upper parts of properties, their conversion to residential flats and the reconfiguration of existing flats to improve the rental income generated by these properties. In addition, continued investment was made to exploit the additional development opportunities within the portfolio which often involved the splitting of properties to create more units with an increased combined rental value. Investment was also made in maintaining the current level of repair of the portfolio to ensure the units remain attractive to new tenants and retain existing tenants.

The Group's revaluation policy remains unchanged. At the half year end and year end, 25% of the portfolio, plus all properties purchased in these two six-month periods, were valued by Allsop LLP, a firm of Chartered Surveyors, acting as external valuers, who are experienced in the Group's particular type of property. The remainder of the portfolio has been valued on the basis of Market Value by the directors who have relevant experience and professional qualifications.

Joint Ventures and Investments
Investments in joint ventures continue to be equity accounted for. The portfolio values have fallen largely as a result of the acquisition costs incurred on the purchase of the assets, as the majority of the assets have been purchased in the last 12 months. As a result the Group has recorded the appropriate share of the losses made by these joint ventures.

When their loss before tax is adjusted for the fall in the fair value of their portfolios and the negative valuation arising from the interest rate swaps both joint ventures have taken out to manage their interest rate exposures, both joint ventures have achieved recurring profits.

The new investment made in the current year in the unlisted partnership with Schroders has been recorded at fair value in accordance with IFRS. The Group has an 8.3% interest in this vehicle and provides asset acquisition and management services. Profit shares from this investment will be recognised when a right to receive payment is established.

At the year end the Group had invested a total of £5.2m into these ventures; this has risen to £5.6m to date. Further details of these ventures are given in notes 9 and 10 in the Notes to the Financial Statements.

Bank debt and facilities

The Group operates using the following facilities:

Loan	Facility £m	Loan outstanding £m	Undrawn £m	LTV covenant	Repayable in one instalment	Termination date
Barclays fixed rate loan	69.2	69.2	–	No	Yes	October 2016
HSBC fully drawn term loan	47.7	47.7	–	No	Yes	April 2016
HSBC term loan	10.5	10.5	–	Yes	Yes	October 2016
HSBC revolving credit facility	35.0	9.5	25.5	Yes	Yes	October 2016
		136.9	25.5			

As shown above, at 30 September 2012 the total debt drawn down by the Group was £136.9m (2011: £131.3m). At the start of the year the Group had an undrawn term facility with HSBC of £14.5m. During the year this was cancelled, thereby reducing the undrawn facilities available to £25.5m. As previously described, costs were incurred in connection with this cancellation. These have been treated as non-recurring and were less than the on-going undrawn commitment fees due on the facility. None of the loan facilities fall due for repayment before 2016.

During the year, the Group drew down and repaid the HSBC revolving credit facility as needed. This resulted in a net drawdown of £5.6m which has largely been used to invest in: the joint ventures, investments and the wholly owned portfolio. This facility includes an LTV covenant of 85%, together with actual and forecast interest cover tests. There is an undrawn commitment fee of 60 basis points which has been applicable to the undrawn facility throughout the year.

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 interest cover required by each loan is listed below.

	Actual ICR	Forecast ICR
Barclays fixed rate loan	110%	110%
HSBC fully drawn term loan	115%	107%
HSBC term loan and revolving credit facility	120%	110%

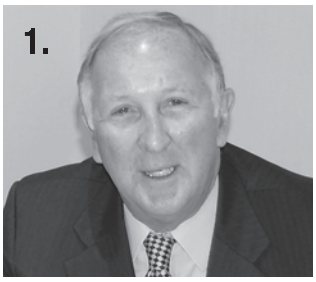
The Group continues to hold properties with a total value of £17.0m, which have no debt drawn against them. These could be used in a number of ways which, together with the loan facilities available, give the Group flexibility in the future and enable the Group to meet its commitments to invest in the joint ventures and other investments.

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. The asset management income earned in the year will form part of the "residual" business, profits from which are not exempt from Corporation Tax. The Group continues to have available losses to relieve any such profits arising. Therefore, no provision for Corporation Tax has been made.

Victoria Whitehouse
Finance Director

Board of Directors

1.


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1. Grahame Whateley

Independent Non-Executive Chairman, aged 69

Grahame Whateley has chaired the Board since January 2005, having spent his working life in the property industry, for much of that time as Chairman of the Castlemore Group. He is Chairman of the Cedar Group of companies and is a non-executive director of Arden Partners Plc. He serves on the Remuneration and Nomination Committees.

2. Michael Riley

Joint Chief Executive Officer, aged 52

Having trained as a Chartered Surveyor with Hillier Parker, Mike Riley became Managing Director of Chesterton's property finance arm, De Groot Collis Finance Limited, in 1989. He subsequently joined HBV Real Estate Capital, becoming Managing Director. After serving as Chief Executive of Quintain Estates and Development Plc, Mike moved to Castlemore Securities Limited, where he was a director until he became a director of the Company in 2005.

3. Nicholas Gregory

Joint Chief Executive Officer, aged 47

Nick Gregory trained as a Chartered Surveyor with Chesterton, having previously held a commission in the Army. He subsequently joined UBS Global Asset Management (UK) Limited where he was the director responsible for acquisitions for the Triton Property Fund. Nick joined the Castlemore Group in 2002 where he was a director until 2005, when he joined the Company.

4. Victoria Whitehouse

Finance Director, aged 39

Vickie Whitehouse qualified as a Chartered Accountant in 1997, having trained with Felton & Co. She subsequently became Senior Audit Manager at KPMG and in 2005 she joined ProLogis Developments Limited as Group Financial Controller. Vickie joined the Company in 2007.

5. Stephen East

Senior Independent Non-Executive Director, aged 54

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 and CQS Diversified Fund Limited and 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 chairs the Audit Committee and the Nomination Committee and also serves on the Remuneration Committee.

6. Nicholas Vetch

Independent Non-Executive Director, aged 50

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. Nick Vetch serves on the Audit Committee and chairs the Remuneration Committee.

7. William Heaney

Company Secretary

Principal Risks & Uncertainties

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 are aware that a number of these, such as the condition of the UK domestic economy, are 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 has considered the risk areas the Company is exposed to in the light of the continuing uncertain economic climate and the risk areas set out in this section have been revised accordingly. The Company's approach to risk management reflects its granular business model and position in the market and involves the expertise of its asset managers and third party advisers. The management team evaluates each investment and asset management decision on its own merits. Key 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. Decisions on major investments, including entering into joint venture arrangements, are reviewed by the Board as a whole.

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
Effect on tenants of downturn in macroeconomic environment	• Tenant defaults and reduced rental income • Increased void costs • Reduction in Net Asset Value	• Rental arrears continually monitored – early discussions with tenants appearing to be in difficulties • 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 • Early action to take control of units when appropriate • Diverse tenant base
Higher than anticipated property maintenance or development costs	• Costs not matched by future income streams and/or improvement in property value	• Maintenance costs identified at purchase and covered in purchase appraisal • All material expenditure authorised by asset manager and director • Development decisions subject to rigorous criteria and regular review • Capital expenditure subject to regular review
Inability to let vacant properties	• Reduction in portfolio return	• Sustainable location and property use are prime determinants of acquisition decision • Regular review of all properties for lease terminations and tenant risk
Non-exploitation of asset management opportunities	• Failure to maximise portfolio returns	• Regular review of all properties for opportunities to improve returns through restructuring occupier terms and taking advantage of development opportunities • Regular review of development projects with progress reported to Board

Principal Risks & Uncertainties continued

Potential Risk	Impact	Mitigation
Property Portfolio Performance		
Properties inadequately or inappropriately insured	Loss of portfolio value and income	Consultant retained to ensure adequate cover is in place for all properties Average cover facility in place to ensure no single property is under-insured Insurance policy and selection of insurers regularly reviewed with advisers
Changes to UK/EU legal environment, planning law or local planning policy	Adverse impact on portfolio Loss of development opportunity	Monitoring of UK property environment and regulatory proposals Close liaison with agents and advisers Membership of and dialogue with relevant industry bodies
Failure to comply with regulatory requirements in connection with property portfolio, including health, safety and environmental	Tenant and third party claims resulting in financial loss Reputational damage	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
Failure to attract and retain staff of required calibre	Loss of skills, knowledge and business relationships Reputational damage	Remuneration packages regularly reviewed against market Remuneration Committee oversight Formal appraisal and informal review processes in place Individual development plans agreed with team members, with external training and qualification programmes supported

Potential Risk	Impact	Mitigation
Corporate Governance and Management		
Non-availability of information technology systems or failure of data security	› Loss of applications impacts on operations › Loss of data impacts on reporting ability › Action against Company in relation to data protection › Financial loss arising from leak of confidential information	› System security regime in place › Key systems hosted off-site › Off-site data backup programme in place › Insurance policies cover various impact areas
Non-compliance with UK REIT rules	› Expulsion from REIT regime › Imposition of tax charge	› Compliance with REIT rules constantly monitored and reported to Board › Independent advice obtained on impact on REIT status of corporate activities › Ongoing management dialogue with HMRC › Non-executive overview
Financial market conditions	› Insufficient finance available at acceptable rates to fulfil business plans › Financial impact of debt interest and costs of undrawn facilities › Breach of banking covenants	› Appropriate hedging in place › Impact of interest rates on property yields monitored and property purchase and sale policy adjusted accordingly
Failure to manage debt levels	› Breach of banking covenants › Impact on business model › Insufficient funds to fulfil business plans	› Board monitors debt management reports and forecasts against annual plan and banking covenants
Mismanagement of financial instruments	› Financial loss	› Independent adviser retained › Board monitors performance of financial instruments
Capital management and liquidity	› Inadequate working capital to satisfy financial commitments as they fall due › Inability to undertake asset management projects	› Management forecasts prepared and reviewed to identify requirements › Sufficient debt facilities available to satisfy working capital requirements › Compliance with banking covenants agreed quarterly with banks and reported to Board
Joint ventures and asset management contracts	› Inherent risks similar to those in mainstream business › Duties of care to third parties, some of whom may be regulated entities	› Activities encompassed by risk mitigation regime of mainstream business › Agreements contain specific monitoring and reporting provisions › Professional indemnity insurance in place

Corporate Responsibility

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

- the talent and commitment of our employees;
- our relationships with national and local advisers and our joint venture partners and other clients; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

Health, Safety and Welfare

We place the highest priority on the welfare of our employees. In particular we recognise the risks faced by our staff when visiting remote sites. Although risk levels are considered to be generally low (and the levels of reportable incidents negligible), our employees are made fully aware of the guidelines which they are expected to adhere to for their own safety in such situations, in the knowledge that their welfare is the overriding consideration. Health and safety and environmental incidents are considered at all the Board's regular meetings.

Our property managers and contractors are expected to ensure that all maintenance and construction activities conform to relevant regulations and that due consideration is given to the welfare of occupants and neighbours. We undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, addressing reported items for improvement, together with a continuing programme of risk assessments covering relevant multi-occupancy sites.

Employees

Our team is relatively small and tightly knit and individual employees take on a high degree of responsibility for delivering value to the business. This is reflected in our performance review process, including individual development plans. Where appropriate, these include support for working towards industry-recognised qualifications. Recruitment procedures and staff development processes are reflective of the equality and diversity policies we have in place. Remuneration packages are reviewed regularly and are subject to Remuneration Committee oversight.

Environment and Communities

Our business model and investment policy is by its nature supportive of reducing the carbon impact of retail shopping. Typically, 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. Besides rejuvenating existing locations, we believe this is likely to reduce the development pressure on greenfield sites. Such work is carried out in accordance with applicable energy and resource saving standards and noise impact reduction requirements. Wherever possible, we use local agents and contractors. Our contractors are required to dispose of waste in accordance with best practice and energy reduction and recycling arrangement are in place in our office.

Governance

The Company is subject to, and complies with the Listing Rules and the Disclosure & Transparency Rules of the Financial Services Authority. The Company is also subject to the UK Corporate Governance Code ("the Code") promulgated by the Financial Reporting Council. 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 Composition

Biographical details for each of the directors, including their membership of the Board's committees, are set out on page 18. All the directors held office throughout the year to 30 September 2012, during which the Board comprised an independent Chairman, two further independent non-executive directors (including the senior independent non-executive director) and three executive directors. Board membership was therefore divided equally between executive and non-executive directors. 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's Articles of Association require any director appointed to the Board during the year to be reappointed at the next Annual General Meeting. All directors are, as a minimum, subject to retirement and re-election at every third Annual General Meeting following their initial election. Mike Riley and Stephen East retired from office at the 2012 Annual General Meeting and were reappointed at that meeting. Although the Code does not require companies outside the FTSE 350 to re-elect their directors on an annual basis, the directors have decided to adopt this policy, in order to conform with accepted best practice, commencing with the 2013 Annual General Meeting.

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. Nine meetings were held during the year. Each Board meeting has a formal agenda. All material aspects of the business are covered and key items are reviewed on a regular basis to enable the Board to monitor well-being and progress. These include portfolio performance, acquisitions and sales, asset management, progress with joint ventures as well as finance, business development and welfare and environmental matters. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive relevant reports and papers prior to each meeting. The attendance record of directors at Board meetings is set out in the table below.

Additional meetings and discussions are arranged outside the Board's regular schedule as necessary. The executive directors, to whom day-to-day operational management is delegated, consult 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 directors.

The division of responsibilities between the executive and the non-executive directors continues to be well-defined and recorded. The Chairman's remit is clearly separate from that of the Joint Chief Executives, with the Chairman taking responsibility for corporate governance and effective leadership of the Board, and the Joint Chief Executives being responsible to the Board for the executive management of the business. The Chairman ensures that due consideration is given to key items of business, including ensuring sufficient opportunity for preparatory work prior to formal meetings. The senior independent director provides a separate communications channel for shareholders and other interested parties, and also has a remit under the Company's internal "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.

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. The terms of reference are available on the Company's website www.localshoppingreit.co.uk. The work of the committees is described below.

Governance continued

Nomination Committee

The Nomination Committee comprises at least 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. It has been the Board's practice 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, Stephen East. The Committee did not meet during the year.

Audit Committee

The Audit Committee's Chairman is Stephen East and its other member is Nick Vetch, both of whom are independent non-executive directors. The Board considers Mr East to have the requisite skills and experience to chair the Committee. The Company Secretary acts as secretary to the Committee. The Committee's terms of reference reflect the terms of the Code. The Committee's responsibilities include:

- monitoring the integrity of the Company's financial statements and formal announcements relating to its financial performance (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;
- overseeing the Company's relationship with the independent Auditors, assessing the Auditor's independence and objectivity, making recommendations to the Board on the Auditor's terms of engagement and remuneration; and
- approving the annual audit plan and reviewing the Auditor's findings and the effectiveness of the audit programme.

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

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

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 30. The Committee met once during the year. Each member's attendance record is set out in the table below.

Attendance at Board and Committee Meetings

Director	Board	Audit	Remuneration	Nomination
Stephen East	8	4	1	–
Nick Gregory	9	–	–	–
Mike Riley	9	–	–	–
Nick Vetch	8	4	1	–
Grahame Whateley	8	–	1	–
Victoria Whitehouse	8	–	–	–

Performance Evaluation of the Board and its Committees

The Board has instituted a performance evaluation process covering the membership, remits and operations of the Board and its Committees. This process is led by the senior independent director supported by the Company Secretary.

Directors' interests in contracts

No director has any material interest in any contract or arrangement with any company within the Group. The interests of the directors in the issued share capital of the Company as at the date of this report, all of which were beneficial, are set out below. 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, none of the directors has any beneficial interest in any subsidiaries of the Company.

	Ordinary 20p shares	
Director	**2012**	2011
Stephen East	**75,000**	75,000
Nicholas Gregory	**600,000**	600,000
Michael Riley	**600,000**	600,000
Nicholas Vetch	**2,873,563**	2,873,563
Grahame Whateley	**7,660,918**	7,660,918
Victoria Whitehouse	**1,149**	1,149

Directors' interests in employee share schemes are set out in the Remuneration Report at page 32.

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.

Certain of the Company's joint venture and asset management agreements contain "key man" provisions relating to the Company's executive directors. The Board is satisfied that these arrangements are reasonable in the context of the agreements and benefits to the Company arising from them.

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. The Company has also arranged professional indemnity insurance cover in relation to its asset management and advisory activities for joint ventures and third parties.

Directors' Performance Appraisal

The non-executive directors, through the Chairman, provide feedback to the executive directors on their individual performance. Similarly, the non-executive directors appraise the performance of the Chairman through the senior independent non-executive director. The executive directors are consulted as part of this process.

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 the executive directors and members of staff on an informal basis. Asset managers 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. Our employees and those who act on our behalf are therefore required to behave and transact business in accordance with the highest professional standards. Besides adhering to the Company's own policies and procedures, this includes complying with the regulations of the professional bodies to which they are affiliated. Procedures are in place enforcing the Model Code, Anti-money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. These are underpinned by a "whistle-blowing" procedure, enabling employees to notify perceived irregularities to members of the Board, principally the senior independent non-executive director.

Governance continued

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 and uncertainties to which the business is exposed may be found on pages 19 to 21.

The principal foundations of the Company's internal control framework, which remained in place throughout the period, 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;
- 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;
- internal procedures covering all operational activity, limits of authority and authorisation procedures;
- effective systems for authorising capital expenditure and significant revenue items and monitoring actual cost incurred;
- regular review meetings with managing agents and other advisers, including review of agents' management and reporting systems;
- structured induction process for all joiners and ongoing staff development;
- regularly updated internal staff handbook explaining the Company's policies and procedures, including health and safety, corporate governance and professional conduct;
- regular team meetings to review operational progress and discuss future developments;
- established procedures for electronic information control and security;
- regular independent audits;
- regular operational and individual performance reviews by executive management;
- 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.

As part of its year-end process, the Board reviewed 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 this review the Board continues to consider that the Company's current approach is acceptable.

KPMG non-audit work

In order to safeguard the objectivity of the Company's Auditors, strict procedures are in place for the engagement of KPMG Audit Plc and its related entities in non-audit work. Careful consideration is given to whether such work might give rise to a conflict of interest and 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.

Investor Relations

The directors place considerable emphasis on effective communications with the Company's investors, maintaining a continuing programme of meetings with shareholders. These usually involve the Joint Chief Executive Officers and the Finance Director, although non-executive directors may also attend. In addition to meetings and presentations to coincide with the announcement of the Company's annual and interim results, meetings are arranged, subject to regulatory constraints, as soon as practicable when requested by investors. The Chairman is happy to meet separately with investors on request.

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. The Company complies with relevant regulatory requirements 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. 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

The Group made no material acquisitions or disposals during the year. During the year the Group entered into a joint venture arrangement with Schroders to invest in convenience retail properties.

Group Companies

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

Group Result and Dividend

The loss for the Group attributable to shareholders for the year was £9.2m (2011: loss £0.7m). The recurring profit for the year was 4.2p per share (2011: 4.0p). The definition of recurring profit is set out in the glossary of terms at the end of the Report.

An interim dividend of 2.0p per Ordinary Share was distributed on 30 June 2012 as a Property Income Distribution ("PID"). A further dividend for the year of 2.0p per Ordinary Share will be distributed as a PID on 31 December 2012 to holders of each of the Ordinary Shares in issue and entitled thereto on 7 December 2012.

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 note 19 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 2012, 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 2013 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.

Governance continued

Substantial interests

As at the date of this document the Company had been notified of the following major interests (of 3% or more) in its issued share capital:

Name	Ordinary Shares	%
Schroder Investment Management	8,849,290	10.73
Thames River Capital	8,388,960	10.17
AXA Framlington	7,850,000	9.51
J G Whateley	7,665,171	9.29
European Investors	4,625,366	5.61
M&G Investment Management	4,425,000	5.36
Henderson Volantis Capital	4,002,518	4.85
N J Vetch	2,873,563	3.48
Conygar Investment Company	2,802,214	3.40

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. Certain of the Group's third party asset management contracts and joint venture agreements contain provisions relating to change of control of the operating subsidiary or the Group. The employment contracts of directors and other members of staff 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

Certain Group companies have entered into funding arrangements with lenders. These are described in notes 13 and 20 to the financial statements. Certain Group companies also participate in joint venture arrangements and asset management contracts with external parties. These arrangements are considered by the Board to be essential for the continuation of the business and the execution of its strategy.

Supplier Payments

Our business model is reliant on the maintenance of good relationships with our suppliers and we aim to deal with them on a fair and open basis and make payments within agreed terms. As at 30 September 2012 there were 22 suppliers' days outstanding (2011: 26 days).

Employee Share Schemes

The Company operates 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 at page 31. 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. The Employee Benefit Trust has waived its entitlement to dividends for the period.

REIT Regime

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

Charitable and Political Donations

During the year the Company made no donations to charitable organisations (2011: nil) or for political purposes (2011: 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

KPMG Audit Plc will resign at the conclusion of the forthcoming Annual General Meeting. KPMG Audit Plc have indicated their willingness to continue as Auditors to the Company and a resolution proposing their reappointment will be put to the Annual General Meeting.

Going Concern

The directors have considered 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, as illustrated on page 5, demonstrates no reliance on one significant tenant. The drawn and undrawn loan facilities, together with the attached covenants, are detailed on page 17. All covenants have been met throughout the year. The Group has debt free properties of £17m which could be applied to remedy any breach of the interest cover tests. Each loan is due for repayment in one instalment in 2016. At 30 September 2012 the Group had undrawn facilities in place of £25.5m. The Group's joint venture arrangements have separate finance facilities. Therefore, in the absence of unforeseen circumstances, the directors consider that the Group will continue to be compliant with its banking covenants and sufficient resources will be available to enable it continue as a going concern for at least the next 12 months. 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

The Remuneration Committee ("the Committee") works in accordance with formal terms of reference set by the Board, within which it is 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.

Biographical details of the members of the Committee are set out on page 18. The Committee met once 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. In setting the remuneration packages of the executive directors and establishing the Company's share-related incentive plans, the Committee has access to independent advice from New Bridge Street, remuneration consultants. New Bridge Street are part of Aon Hewitt Limited, which does not provide any other services to the Group.

Remuneration Policy

The Company's remuneration policy is based on the principles set out below:

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

The Committee aims to reflect these principles in the mix of basic pay, benefits, annual bonus and long-term awards contained in the remuneration packages adopted for the executive directors and senior managers. The approach adopted by the Committee is to set base pay and other fixed remuneration for executive directors 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.

However, rewards at this level will only be generated provided the executives achieve stretching performance targets. It is the Company's policy to use the Employee Share Option Plan, described below, to incentivise all permanent employees to contribute to the success of the business.

Base Pay and Benefits

Basic salary and benefits are reviewed annually by the Committee against comparable market groups. In addition to their base salary, the executive directors are provided with private health insurance, death in service and disability insurance and critical illness cover. The salary of Victoria Whitehouse was increased during the year following a review of market comparabilities. The level of base pay of the other executive directors did not increase during the year.

Directors' Pensions

The Company has established a Stakeholder Pension Plan and a Group Personal Pension plan. All employees, including executive directors, are eligible to join either of these schemes. At the date of this document, no director was a member of the Stakeholder Pension Plan. Victoria Whitehouse was a member of the Group Personal Pension Plan and contribution details in respect of her membership are set out in the table on page 32. The Company made contributions to the personal pension plans of executive directors, as a percentage of base salary, as follows:

Nick Gregory 10% per annum
Mike Riley 10% per annum

The Company is making preparations in connection with its entry into the pensions auto-enrolment regime.

Annual Executive Bonus Plan ("the bonus plan")

Bonus arrangements are in place which provide for incentive payments to the participants to the extent that performance targets set by the Committee are achieved during the financial year. Within these the Joint Chief Executives may earn annual awards of up to 100% of base salary and the Finance Director may earn bonus awards of up to 50% of salary. The maximum bonus for other participating executives is determined by the Committee, but will not exceed 100% of base salary. Performance criteria for the year ended 30 September 2012 related to the level of recurring profit for the year in excess of a benchmark previously set by the Committee. Awards made to executive directors for the year under the bonus plan are set out in the table below. Nick Gregory and Mike Riley waived their entitlement to receive a bonus for the year.

Long Term Incentive Plan ("the LTIP")

Under the terms of the LTIP employees, including executive directors, may be granted awards of the Company's shares in the form of a nil cost option. The LTIP is operated by the Committee in conjunction with the Company's Employee Benefit Trust ("EBT"), which may grant awards on the Committee's recommendation. The exercise of awards granted under the LTIP is conditional on the achievement of objective performance targets set by the Committee at the time of grant. Performance is measured over a minimum period of three years and awards may not be exercised until after the expiry of the relevant performance period. Awards to directors made under the LTIP are set out in the table below. The performance criteria for the LTIP awards made in 2011 relate to the achievement of predetermined recurring profit hurdles for each year of the three-year performance period, with a further performance hurdle for the performance period as a whole. No new awards were made under the LTIP during the year.

Company Share Option Plan ("the CSOP")

Under the terms of the CSOP, employees of the Company, including executive directors, are eligible to be granted options over the Company's shares at the discretion of the Remuneration Committee. The exercise price of options granted under the CSOP will ordinarily be equal to the market value of the Company's shares at the date of grant and the exercise of options will not normally be subject to a separate performance target.

Options will ordinarily be exercised between the third and tenth anniversary of their grant. The CSOP has been approved by HM Revenue & Customs. No awards have been made to executive directors under the CSOP.

Internal Relativity

The Committee is sensitive to the need to set directors' remuneration having regard to pay and conditions generally within the Company and for the Company to remain competitive as an employer within the sector. The Committee therefore monitors internal and external relativities in line with the Company's growth and the evolving market.

Non-Executive Directors

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 non-executive pay will be reviewed at least every three years by the Chairman and the executive directors, to whom the Board has delegated this task. The level of remuneration for non-executive directors did not change during the year.

Remuneration Report continued

Directors' Contracts and Terms of Appointment

Under the Company's Articles one-third of the directors are subject to retirement at each Annual General Meeting. The Articles require that director appointments made by the Board directors are ratified at the subsequent General Meeting of the Company. The Board has decided that, in recognition of the best practice provisions of the UK Corporate Governance Code, all directors will be subject to re-election at each Annual General Meeting, with effect from the Annual General Meeting in 2013. 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. Grahame Whateley has 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.

For executive directors, the Company's policy is that service contracts should be capable of termination by the Company at not more than one year's notice. The Company has the right to terminate the service contracts without full notice on the payment of compensation in lieu of the period of notice forgone. Nick Gregory, Mike Riley and Victoria Whitehouse all have service contracts dated 30 March 2007, all of which provide for 12 months' notice.

External Appointments

The non-executive directors consider it beneficial in principle for the Company for the executive directors to hold a limited number of outside directorships or other appointments. The executive directors have not as yet taken up any such appointment.

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

Directors' Total Emoluments

	2012					2011
Director	Salary £	Bonus £	Pension contributions £	Benefits in kind £	Total £	Total £
Non-executive Directors						
Stephen East	30,000	—	—	—	**30,000**	30,000
Nick Vetch	30,000	—	—	—	**30,000**	30,000
Grahame Whateley	50,000	—	—	—	**50,000**	50,000
Executive Directors						
Nick Gregory	285,000	—	26,000	7,300	**318,300**	316,598
Mike Riley	285,000	—	26,000	6,700	**317,700**	317,346
Victoria Whitehouse	132,500	1,200	1,300	2,300	**137,300**	127,976
Total	812,500	1,200	53,300	16,300	**883,300**	871,920

Directors' LTIP Awards

Director	Subject to award at 1 October 2011	Granted during year	Exercised during year	Lapsed during year	Shares subject to award at 30 September 2012	Market value per share at award date	Exercise date from	Exercise date to
Nick Gregory	619,905	—	—	—	**619,905**	£0.59	12 January 2014	11 January 2021
Mike Riley	619,905	—	—	—	**619,905**	£0.59	12 January 2014	11 January 2021
Victoria Whitehouse	186,821	—	—	—	**186,821**	£0.59	12 January 2014	11 January 2021
Total	1,426,631	—	—	—	**1,426,631**			

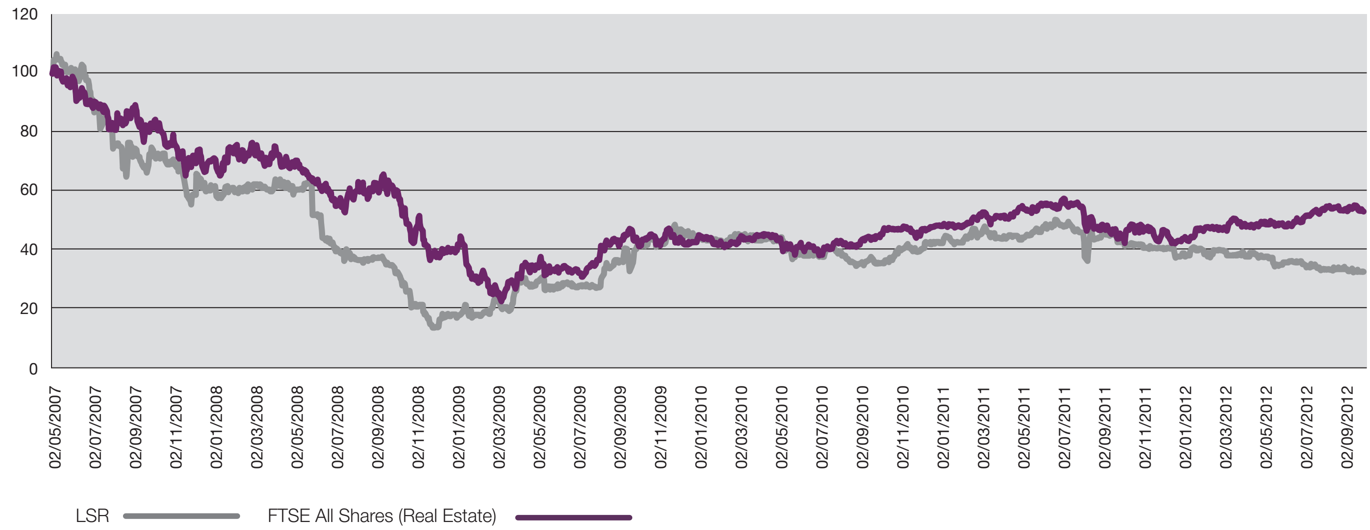
Directors' Service Contracts

Non-executive directors	Date of appointment as director	Date of current appointment letter	Expiry of term
Stephen East	10 September 2009	22 November 2012	9 September 2013
Nick Vetch	30 March 2007	30 March 2012	29 March 2013
Grahame Whateley	20 September 2004	30 March 2012	29 March 2013

Executive directors	Date of contract	Notice period
Nick Gregory	30 March 2007	12 months from either party
Mike Riley	30 March 2007	12 months from either party
Victoria Whitehouse	30 March 2007	12 months from either party

TSR Performance Graph (Not Audited)

TSR performance from IPO on 2 May 2007 to 30 September 2012.



The foregoing reports were approved by the directors on 14 December 2012.

William A Heaney
Company Secretary

Independent Auditor's Report to the Members of The Local Shopping REIT plc

We have audited the financial statements of The Local Shopping REIT plc for the year ended 30 September 2012 set out on pages 35 to 63. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

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 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern;
- the part of the Corporate Governance Statement on pages 23 to 29 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

14 December 2012

Consolidated Income Statement

for the year ended 30 September 2012

	Note	2012 £000	2011 £000
Gross rental income		15,809	16,078
Property operating expenses		(2,545)	(2,628)
Net rental income		13,264	13,450
Profit on disposal of investment properties		84	51
Loss from change in fair value of investment properties	8	(12,165)	(3,843)
Administrative expenses	3	(3,319)	(2,736)
Net other income	4	520	40
Share of results from jointly controlled entities	9	(207)	(55)
Operating (loss)/profit before net financing costs		(1,823)	6,907
Financing income*	5	3	4
Financing expenses*	5	(7,574)	(7,490)
Movement in fair value of financial derivatives	5	216	(131)
Loss before tax		(9,178)	(710)
Taxation	6	–	–
Loss for the financial year attributable to equity holders of the Company		(9,178)	(710)
Basic and diluted loss per share	18	(11.3)p	(0.9)p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2012

	2012 £000	2011 £000
Loss for the financial year	(9,178)	(710)
Total comprehensive income for the year	(9,178)	(710)
Attributable to:		
Equity holders of the parent Company	(9,178)	(710)

Consolidated Balance Sheet

as at 30 September 2012

	Note	2012 £000	2011 £000
Non-current assets			
Property, plant and equipment	7	126	161
Investment properties	8	178,109	190,111
Investments in jointly controlled entities	9	4,070	1,823
Other investments	10	909	–
		183,214	192,095
Current assets			
Trade and other receivables	11	4,698	3,773
Cash	12	5,496	4,461
		10,194	8,234
Total assets		193,408	200,329
Non-current liabilities			
Interest bearing loans and borrowings	13	(136,380)	(130,620)
Finance lease liabilities	15	(922)	(922)
Derivative financial instruments	19	(6,595)	(7,264)
		(143,897)	(138,806)
Current liabilities			
Interest bearing loans and borrowings	13	–	–
Trade and other payables	14	(5,739)	(5,689)
Derivative financial instruments	19	(2,447)	(1,994)
		(8,186)	(7,683)
Total liabilities		(152,083)	(146,489)
Net assets		41,325	53,840
Equity			
Issued capital	16	18,334	18,334
Reserves	16	3,773	3,773
Capital redemption reserve	16	1,764	1,764
Retained earnings		17,454	29,969
Total attributable to equity holders of the Company		41,325	53,840

The financial statements were approved by the Board on 14 December 2012. They were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 05304743.

Consolidated Statement of Cash Flows

for the year ended 30 September 2012

	Note	2012 £000	Restated 2011 £000
Operating activities			
Loss for the year		(9,178)	(710)
Adjustments for:			
Loss from change in fair value of investment properties	8	12,165	3,843
Net financing costs	5	7,355	7,617
Profit on disposal of investment properties		(84)	(51)
Depreciation	7	40	38
Employee share options		–	3
Share of results of jointly controlled entities	9	207	55
		10,505	10,795
Increase/(decrease) in trade and other receivables		(925)	552
(Decrease)/increase in trade and other payables		(80)	759
		9,500	12,106
Interest paid		(7,286)	(7,491)
Interest received		3	4
Net cash from operating activities		2,217	4,619
Investing activities			
Proceeds from sale of investment properties		2,174	5,020
Acquisition and improvements to investment properties	8	(2,251)	(5,116)
Acquisition of property, plant and equipment	7	(5)	(11)
Investment in jointly controlled entities	9	(2,454)	(1,878)
Investment in other investments	10	(909)	–
Cash flows from investing activities		(3,445)	(1,985)
Net cash flows from operating activities and investing activities		(1,228)	2,634
Financing activities			
Repayment of borrowings		(300)	(2,200)
New borrowings		5,900	1,000
Dividends paid	17	(3,337)	(3,093)
Cash flows from financing activities		2,263	(4,293)
Net increase/(decrease) in cash		1,035	(1,659)
Cash at beginning of year		4,461	6,120
Cash at end of year	12	5,496	4,461

Consolidated Statement of Changes in Equity

for the year ended 30 September 2012

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 October 2010	18,334	3,773	1,764	33,769	57,640
Total comprehensive income for the year					
Loss for the year	–	–	–	(710)	(710)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(3,093)	(3,093)
Share-based payments	–	–	–	3	3
Total contributions by and distributions to owners	–	–	–	(3,090)	(3,090)
Balance at 30 September 2011	18,334	3,773	1,764	29,969	53,840
Total comprehensive income for the year					
Loss for the year	–	–	–	(9,178)	(9,178)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(3,337)	(3,337)
Share-based payments	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	(3,337)	(3,337)
Balance at 30 September 2012	**18,334**	**3,773**	**1,764**	**17,454**	**41,325**

Notes to the Financial Statements

for the year ended 30 September 2012

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 and other investments. They have been prepared on a going concern basis as explained on page 29.

The 2011 comparative figures for the cash flow statement only have been restated by £124,000 as finance lease payments had been incorrectly classified.

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 2012. 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.

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.

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 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.

Notes to the Financial Statements

for the year ended 30 September 2012

1 Accounting Policies continued

Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation is charged to the Income Statement on the following basis:

- Fixtures and fittings – 15% reducing balance;
- Computer equipment – straight-line basis over three years; and
- Leasehold improvements – straight-line basis over the shorter of the length of lease or the useful economic life.

Joint Ventures

In the previous year, the Group entered into two new joint venture agreements; therefore, the following accounting policy was adopted in respect of accounting for these jointly controlled entities.

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.

Other Investments

During the year, the Group invested in a new venture which has been accounted for as a non-current investment; therefore, the following new accounting policy has been adopted in respect of this investment.

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.

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.

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.

1 Accounting Policies continued

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.

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 includes asset management fees which are 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.

Pensions

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

Share-based Payments

The Group operates equity settled, share-based compensation plans comprising awards under a Long Term Incentive Plan (“LTIP”) and a Company Share Option Plan (“CSOP”) for certain employees. The fair values of these schemes are measured at their fair value at the date of grant. The fair value is then recognised as an employee cost, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group’s estimate of the shares that will eventually vest.

The fair value of each scheme is measured using an option pricing model. The awards under both schemes were measured using a Black–Scholes model.

Notes to the Financial Statements

for the year ended 30 September 2012

1 Accounting Policies continued

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 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 2011 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 bank and JC Rathbone Associates Limited. 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.

New Standards and Interpretations Not Yet Adopted

There are a number of amendments to standards and interpretations of standards which are not yet effective for the year ended 30 September 2012 and have not been applied in preparing these consolidated financial statements. These are as follows:

Amendments to existing standards

- Amendments to IAS 1 – Presentation of items of other comprehensive income.

All of the above amendments to existing standards are endorsed by the European Union (EU) at the date of approval of these financial statements.

At the date of approval of these financial statements, the following interpretations and amendments to standards were issued, endorsed by the EU and are mandatory for the Group for the first time for the financial year beginning on 1 October 2012:

- Annual improvements project;
- IAS 24 – Related parties has been revised mainly around the related party disclosures concerning government-related entities and the definition of a related party;
- Amendments to IFRS 7 – Financial instruments disclosures and transfers of financial assets;
- Amendments to IAS 1 – Presentation of financial statements concerning the changes in the statement of equity; and
- IFRIC 13 – Customer Loyalty programmes.

The adoption of these standards would result in no material impact to these financial statements.

2 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 establishment of the jointly controlled entities and other investments, the Group has identified two operating and reporting segments which are reported to the Board of directors on a quarterly basis. The Board of directors is considered to be the chief operating decision maker.

The financial information presented quarterly to the Board is the recurring profit achieved by each segment. The segments identified are: properties owned directly by the Group and the asset management income earned, together with the share of results due to the Group from the joint ventures.

The following table reconciles the result stated in the Income Statement to the recurring profit from each segment, which is presented to the Board:

	2012			2011		
	Wholly owned portfolio £000	Asset management £000	Total £000	Wholly owned portfolio £000	Asset management £000	Total £000
Recurring profit	3,270	134	3,404	3,190	50	3,240
Movement in fair value of portfolio	(12,165)	(346)	(12,511)	(3,843)	–	(3,843)
Movement in fair value of interest rate swaps held	216	(52)	164	(131)	–	(131)
Profit on sale of investment properties	84	112	196	51	–	51
Non-recurring income	—	141	141	–	–	–
Non-recurring expenditure	(506)	(66)	(572)	–	(27)	(27)
IFRS reported (loss)/profit for the year	(9,101)	(77)	(9,178)	(733)	23	(710)

All gross rental income recorded in the Income Statement is derived from the wholly owned portfolio; none of this revenue is generated by the asset management business.

	2012			2011		
	Wholly owned portfolio £000	Asset management £000	Total £000	Wholly owned portfolio £000	Asset management £000	Total £000
Assets	187,956	5,434	193,390	198,191	1,963	200,154
Liabilities	(146,270)	(5,795)	(152,065)	(144,104)	(2,210)	(146,314)
Net assets/(liabilities)	41,686	(361)	41,325	54,087	(247)	53,840

3 Administrative Expenses

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

	2012 £000	2011 £000
Auditors' remuneration for audit services:		
Audit of parent Company	34	32
Audit related assurance services	16	20
Statutory audit of subsidiaries	52	50
Auditors' remuneration for non-audit services:		
Tax services	37	34
Other services supplied	50	21

The other services supplied relate to professional advice received in connection with the exploration of a potential transaction which was considered by the Company.

Notes to the Financial Statements

for the year ended 30 September 2012

3 Administrative Expenses continued

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

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

	2012 Number of Employees	2011 Number of Employees
Administration	17	16

The aggregate payroll costs of these people were as follows:

	2012 £000	2011 £000
Wages and salaries	1,489	1,318
Social security costs	180	164
Other pension costs	89	89
Equity settled share-based payments	5	5
	1,763	1,576

Directors' emoluments are disclosed separately in the Remuneration Report on pages 30 to 33.

c) Share Awards

During the year, the Company awarded 85,500 shares (2011: 56,050) to staff under the Company Share Option Plan. These shares have been valued at 14.8 pence per share (2011: 6.2 pence per share) so result in no material charge to the Income Statement in the current or previous year. At 30 September 2012 there were 261,904 shares (2011: 216,630) outstanding under the Company Share Option Plan.

No awards were made under the Long Term Incentive Plan in the current year. In the previous year, an award of 1,698,370 shares was made to the directors and other members of staff. It is not expected that the performance criteria will be met in order for the shares to vest so no charge has been taken to the Income Statement in the current year.

Details of the Company Share Option Plan and Long Term Incentive Plan are given in the Remuneration Report.

d) Significant amounts

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. During the year the Company incurred costs of £418,000 in connection with professional advice received regarding the exploration of a potential transaction which was considered by the Company. These costs have been included in administrative expenses.

4 Net Other Income

	2012 £000	2011 £000
Other income	574	210
Other expenses	(54)	(170)
	520	40

In the current and previous year, the majority of other income relates to fees earned from asset management services and property acquisition services provided to third parties, jointly controlled entities and other investments. Other expenses relate to costs incurred in connection with the provision of these services.

5 Net Financing Costs

	2012 £000	2011 £000
Interest receivable	3	4
Interest receivable excluding fair value movements	3	4
Fair value gains on derivative financial instruments (note 19)	216	–
Financing income	219	4
Bank loan interest	(7,338)	(7,290)
Amortisation of loan arrangement fees	(181)	(145)
Head rents treated as finance leases	(55)	(55)
Financing expenses excluding fair value movements	(7,574)	(7,490)
Fair value losses on derivative financial instruments (note 19)	–	(131)
Financing expenses	(7,574)	(7,621)
Net financing costs	(7,355)	(7,617)

6 Taxation

	2012 £000	2011 £000
Current tax		
Corporation tax charged at 25% (2011: 27%)	–	–
Total current tax	–	–
Deferred tax		
Origination and reversal of temporary differences	–	–
Total tax charge in the Income Statement	–	–

Reconciliation of Effective Tax Rate

	2012 £000	2011 £000
Loss before tax	(9,178)	(710)
Corporation tax in the UK of 25% (2011: 27%)	(2,294)	(192)
Tax relief available from REIT status	(1,560)	(366)
Effects of:		
Revaluation deficit and other non-deductible items	3,308	72
Deferred tax asset not recognised	546	486
	–	–

Factors that may affect future current and total tax charges

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This would reduce the Company's future current 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.

On entering the UK REIT regime, a conversion charge equal to 2% of the gross market value of properties involved in the property rental business, at that date, became due which has now been paid in full.

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 2012 was £2,003,000 (2011: £1,762,000).

Notes to the Financial Statements

for the year ended 30 September 2012

7 Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2010	166	38	61	265
Additions	–	–	10	10
At 30 September 2011	166	38	71	275
Additions	1	3	1	5
At 30 September 2012	**167**	**41**	**72**	**280**
Depreciation				
At 1 October 2010	42	15	19	76
Charge for year	17	4	17	38
At 30 September 2011	59	19	36	114
Charge for year	17	3	20	40
At 30 September 2012	**76**	**22**	**56**	**154**
Net book value				
At 30 September 2012	**91**	**19**	**16**	**126**
At 30 September 2011	107	19	35	161
At 30 September 2010	124	23	42	189

8 Investment Properties

	Freehold Investment Properties £000	Leasehold Investment Properties £000	Total £000
At 1 October 2010	157,508	36,571	194,079
Additions	4,165	951	5,116
Disposals	(4,473)	(768)	(5,241)
Fair value adjustments	(2,161)	(1,682)	(3,843)
At 30 September 2011	155,039	35,072	190,111
Additions	1,971	280	2,251
Disposals	(1,953)	(135)	(2,088)
Fair value adjustments	(10,213)	(1,952)	(12,165)
At 30 September 2012	**144,844**	**33,265**	**178,109**

No investment properties have been identified that meet the criteria of assets held for resale at 30 September 2012 and 30 September 2011.

The investment properties have all been revalued to their fair value at 30 September 2012.

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 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.

8 Investment Properties continued

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

	2012 £000	2011 £000
Portfolio valuation	177,187	189,189
Head leases treated as investment properties held under finance leases per IAS 17	922	922
Total per Balance Sheet	178,109	190,111

9 Investments in jointly controlled entities

The Group has the following investments in jointly controlled entities:

	2012 Country	2012 Ownership	2011 Country	2011 Ownership
Local Parade Investments LLP	United Kingdom	20%	United Kingdom	20%
Gracechurch Commercial Investments Limited	United Kingdom	50%	United Kingdom	50%

In the previous year, the Group entered into two joint venture arrangements.

On 26 November 2010 an agreement was entered into with Local Parade Investments LLP, a newly incorporated entity. The initial investment made was £20. The principal activity of the entity is the acquisition and management of retail parades. It is appropriate to classify the arrangement with Local Parade Investments LLP as a joint venture under IAS 13 as the terms of the Limited Liability Partnership agreement require the unanimous approval of the Board for key strategic and operational decisions.

On 28 September 2011 an agreement was entered into with Gracechurch Commercial Investments Limited, a newly incorporated entity. The initial investment made was £500,000. The principal activity of the entity is to acquire properties for investment purposes.

	£000
Cost	
At 1 October 2010	–
Equity investments	500
Loan advances	1,378
Share of results, net of tax	(55)
Distributions received	–
At 1 October 2011	1,823
Equity investments	–
Loan advances	2,454
Share of results, net of tax	(207)
Distributions received	–
At 30 September 2012	**4,070**

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

	2012 £000	2011 £000
Non-current assets	8,222	4,351
Current assets	1,139	333
Non-current liabilities	(4,806)	(2,594)
Current liabilities	(485)	(267)
	4,070	1,823
Represented by:		
Capital	500	500
Loans	3,832	1,378
Brought forward share of results	(55)	–
Shares of results, net of tax	(207)	(55)
Group's share of net assets	4,070	1,823

Notes to the Financial Statements

for the year ended 30 September 2012

9 Investments in jointly controlled entities continued

	2012 £000	2011 £000
Net rental income	501	53
Property expenses	(117)	(13)
Administrative expenses	(55)	(87)
Change in fair value of properties	(346)	37
Net interest payable	(223)	(32)
Movement in fair value of financial derivatives	(52)	(13)
Profit on disposal of investments properties	112	–
Tax	(27)	–
Group's share of results, net of tax	(207)	(55)

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.

	Total £000
Fair value	
At 1 October 2010	–
Additions	–
At 30 September 2011	–
Additions	909
At 30 September 2012	**909**
Impairment charge	
At 1 October 2010	–
Charge for the year	–
At 30 September 2011	–
Charge for the year	–
At 30 September 2012	**–**
Net book value	
At 30 September 2012	**909**
At 30 September 2011	–
At 30 September 2010	–

11 Trade and Other Receivables

	2012 £000	2011 £000
Trade receivables	2,915	2,258
Other receivables	662	544
Prepayments	1,121	971
	4,698	3,773

12 Cash

	2012 £000	2011 £000
Cash in the Statement of Cash Flows	5,496	4,461

Included in bank balances are amounts held pending the next interest payment due in October 2012. 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 £2,319,327 (2011: £2,817,882) with accruals for interest due of £1,385,714 (2011: £1,256,390).

13 Interest Bearing Loans and Borrowings

	2012 £000	2011 £000
Non-current liabilities		
Secured bank loans	136,929	131,329
Loan arrangement fees	(549)	(709)
	136,380	130,620
Current liabilities		
Current portion of secured bank loans	–	–

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. Each loan is repayable in one instalment in 2016.

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

14 Trade and Other Payables

	2012 £000	2011 £000
Trade payables	527	868
Other taxation and social security	522	422
Other payables	1,004	1,103
Accruals and deferred income	3,686	3,296
	5,739	5,689

Other payables include rent deposits held in respect of commercial tenants of £834,000 (2011: £850,000).

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 1 October 2010	8,546	(7,340)	1,206
Disposals	(1,572)	1,288	(284)
(Payments)/charge	(55)	55	–
At 30 September 2011	6,919	(5,997)	922
(Payments)/charge	(55)	55	–
At 30 September 2012	**6,864**	**(5,942)**	**922**

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

	2012 Ordinary 20p Shares		2011 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

Investment in Own Shares

At the year end, 9,164,017 shares were held in treasury (2011: 9,164,017).

The number of shares held by the EBT at the year end was 1,096,545 (2011: 1,114,089). During the year the EBT transferred 17,544 shares (2011: Nil) to employees on the exercise of awards under the Company's Share Option Plan and during the previous year 9,250 shares were transferred to employees on the vesting of awards under the Long Term Incentive Plan; no such vesting occurred in the current year.

Notes to the Financial Statements

for the year ended 30 September 2012

16 Capital and Reserves continued

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)

	2012 £000	2011 £000
Net assets	41,325	53,840
Fair value of derivative financial instruments (see note 19)	9,042	9,258
Adjusted net assets	50,367	63,098

	2012 Number 000	2011 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	50p	65p
Adjusted NAV per share	61p	76p

17 Dividends

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

Date paid	Dividend per share	Total payment £000	Classification of dividend
30 June 2012	2.0 pence	1,628	PID
30 December 2011	2.1 pence	1,709	non-PID
30 June 2011	1.9 pence	1,546	PID
31 December 2010	1.9 pence	1,546	PID
30 June 2010	1.7 pence	1,384	PID
31 December 2009	1.8 pence	1,465	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").

A dividend of 2 pence per share (£1,628,000) will be paid by 31 December 2012 as a PID.

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:

Loss Attributable to Ordinary Shares

	2012 £000	2011 £000
Loss for the year	(9,178)	(710)

18 Earnings Per Share continued

Weighted Average Number of Ordinary Shares

	2012 Number 000	2011 Number 000
Issued Ordinary Shares at 1 October 2011	91,670	91,670
Shares held by EBT	(1,103)	(1,114)
Treasury shares	(9,164)	(9,164)
Weighted average number of Ordinary Shares at 30 September 2012	81,403	81,392

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 2010 £000	Movements in Income Statement £000	Fair Value 2011 £000	Movements in Income Statement £000	Fair Value 2012 £000
Non-current liabilities	(6,746)	(518)	(7,264)	669	(6,595)
Current liabilities	(2,381)	387	(1,994)	(453)	(2,447)
Fair value	(9,127)		(9,258)		(9,042)
Amount charged to Income Statement		(131)		216	

At 30 September 2012 and 30 September 2011 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 2011 £000	Movement in Income Statement £000	Fair Value 2012 £000
22,978	16 July 2007	31 January 2017	4.85	(3,644)	22	(3,622)
3,000	22 November 2006	30 April 2013	5.15	(198)	118	(80)
12,000	06 September 2006	30 April 2013	5.06	(773)	458	(315)
6,000	08 December 2006	30 April 2013	5.13	(394)	234	(160)
1,500	09 August 2006	30 April 2013	5.20	(100)	59	(41)
22,500	30 April 2013	20 July 2016	5.05	(2,346)	(747)	(3,093)
6,000	25 October 2006	30 April 2013	5.29	(408)	243	(165)
1,500	30 April 2010	30 April 2013	5.20	(100)	60	(40)
3,000	11 October 2006	30 April 2013	5.21	(200)	117	(83)
10,500	30 April 2013	29 July 2016	5.05	(1,095)	(348)	(1,443)
				(9,258)	216	(9,042)

The interest rate receivable on each swap is LIBOR. The notional value of the £22,978,000 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.

Notes to the Financial Statements

for the year ended 30 September 2012

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 on pages 23 to 29, 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. In light of the recently announced strategic review the Board will review the Company's dividend distribution policy when the outcome of the strategic review is known. 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 fixed and 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 2012, 91% (2011: 96%) of the Group's debt was fixed or protected, as shown below.

	At 30 September 2012				At 30 September 2011			
	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	–	–	69,229	69,229	–	–
Variable rate loan	67,700	–	55,978	11,722	62,100	–	56,778	5,322
	136,929	69,229	55,978	11,722	131,329	69,229	56,778	5,322

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).

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.

	2012				2011			
	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	72	85	72	85	37	69	37	69
Impact on fair value of derivatives	2,129	1,500	2,129	1,500	2,570	2,570	2,570	2,570

20 Financial Instruments and Risk Management continued

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 2,000 tenants in over 640 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 4 and 5. 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.

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

30 September 2012

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Investments in jointly controlled entities	–	–	4,070	4,070	4,070
Other Investments	–	909	–	909	909
Cash and cash equivalents	–	5,496	–	5,496	5,496
Trade receivables	–	–	2,915	2,915	2,915
Other receivables	–	–	662	662	662
	–	6,405	7,647	14,052	14,052

30 September 2011

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Investments in jointly controlled entities	–	–	1,823	1,823	1,823
Cash and cash equivalents	–	4,461	–	4,461	4,461
Trade receivables	–	–	2,258	2,258	2,258
Other receivables	–	–	544	544	544
	–	4,461	4,625	9,086	9,086

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

The ageing of trade receivables is as follows:

	2012			2011		
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	811	–	811	593	–	593
Past due by one to 30 days	1,320	(4)	1,316	939	(18)	921
Past due by 30–60 days	214	(8)	206	384	(22)	362
Past due by 60–90 days	235	(10)	225	52	(31)	21
Past due by 90 days	877	(520)	357	832	(471)	361
	3,457	(542)	2,915	2,800	(542)	2,258

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

Other receivables at 30 September 2012 and 30 September 2011 were not past due.

Notes to the Financial Statements

for the year ended 30 September 2012

20 Financial Instruments and Risk Management continued

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

	2012 £000	2011 £000
Balance at beginning of year	542	493
Impairment loss recognised	684	807
Trade receivables written off	(684)	(758)
Balance at end of year	542	542

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

Liquidity Risk

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

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

30 September 2012

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	136,380	136,380	148,439
Finance lease liabilities	–	922	922	922
Derivative financial instruments	9,048	–	9,048	9,048
Trade payables	–	527	527	527
Other payables	–	862	862	862
Accruals	–	2,084	2,084	2,084
	9,048	140,775	149,823	161,882

30 September 2011

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	130,620	130,620	142,315
Finance lease liabilities	–	922	922	922
Derivative financial instruments	9,258	–	9,258	9,258
Trade payables	–	868	868	868
Other payables	–	874	874	874
Accruals	–	1,868	1,868	1,868
	9,258	135,152	144,410	156,105

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 JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

20 Financial Instruments and Risk Management continued

The Group has undrawn committed borrowing facilities available at 30 September as follows:

	2012 £000	2011 £000
Expiring in two to five years		
Bank loans – revolving credit facility	25,500	–
	25,500	–
Expiring after more than five years		
Bank loans – term loan facility	–	14,500
Bank loans – revolving credit facility	–	31,100
	–	45,600

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

30 September 2012

	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	136,380	165,332	7,431	7,431	7,431	73,640	69,399	–
Finance lease liabilities	922	6,863	55	55	55	55	55	6,588
Derivative financial instruments	9,048	9,048	2,447	2,392	2,246	1,818	145	–
Trade payables	527	527	527	–	–	–	–	–
Other payables	862	862	862	–	–	–	–	–
Accruals	2,084	2,084	2,084	–	–	–	–	
	149,823	184,716	13,406	9,878	9,732	75,513	69,599	6,588

30 September 2011

	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	130,620	166,499	7,286	7,286	7,286	7,286	67,956	69,399
Finance lease liabilities	922	6,919	55	55	55	55	55	6,644
Derivative financial instruments	9,258	9,258	1,994	1,991	1,926	1,760	1,415	172
Trade payables	868	868	868	–	–	–	–	–
Other payables	874	874	874	–	–	–	–	–
Accruals	1,868	1,868	1,868	–	–	–	–	–
	144,410	186,286	12,945	9,332	9,267	9,101	69,426	76,215

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

Notes to the Financial Statements

for the year ended 30 September 2012

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	
	2012	2011
	£000	£000
The next year	96	96
Years two to five	384	384
Beyond five years	24	120
	504	600

During the year ended 30 September 2012 £96,000 was recognised as an expense in the Income Statement in respect of operating leases (2011: £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:

	2012	2011
	£000	£000
Less than one year	3,861	3,427
Between one and five years	5,602	5,466
More than five years	6,567	7,345
	16,030	16,238

22 Capital Commitments

At 30 September 2012 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £292,000 (2011: £293,000).

At 30 September 2012, the jointly controlled entities had contracted capital expenditure for which no provision has been made in these financial statements of £64,000 (2011: £2,363,125).

23 Related Parties

Identity of Related Parties

In the previous year, a property was sold at its market value of £1,620,000 to the newly incorporated joint venture entity, Local Parade Investments LLP. There have been no such transactions with related parties in the current year.

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Remuneration Report on page 30.

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* 2012	2011
NOS Limited	United Kingdom	100%	100%
NOS 2 Limited	United Kingdom	100%	100%
NOS 3 Limited	United Kingdom	100%	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	United Kingdom	100%	100%
Gilfin Property Holdings Limited	United Kingdom	100%	100%
LSR Asset Management Limited	United Kingdom	100%	100%
NOS Residential Limited	United Kingdom	100%	100%
LSR Asset Services Limited	United Kingdom	100%	100%
LSR Investment Services Limited	United Kingdom	100%	100%
LSR Gresham Asset Advisers Limited	United Kingdom	100%	–
LSR Gresham Investments Limited	United Kingdom	100%	–

Jointly controlled entities

Local Parade Investments LLP	United Kingdom	20%	20%
Gracechurch Commercial Investments Limited	United Kingdom	50%	50%

* All interests are in Ordinary Shares except for Local Parade Investments LLP where the investment is in partnership capital.

25 Non-adjusting subsequent events

Since the year end, the Company has, whilst it goes through its strategic review, suspended its commitment to further funds to all of its joint ventures and investments which has resulted in a breach of the terms of one of its partnership agreements. The partnership agreements permit a number of remedies to the counterparty, none of which would give rise to a material impact on the result before tax or net assets

Company Balance Sheet

as at 30 September 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Property, plant and equipment	C5		126		161
Investments	C6		130,327		130,886
			130,453		131,047
Current assets					
Debtors	C7	7,936		6,032	
Cash		149		233	
		8,085		6,265	
Creditors: Amounts falling due within one year	C8	(47,158)		(39,838)	
Net current liabilities			(39,073)		(33,573)
Total assets less current liabilities			91,380		97,474
Creditors: Amounts falling due after one year			–		–
Net assets			91,380		97,474
Capital and reserves					
Share capital	C9		18,334		18,334
Reserves	C9		3,742		3,742
Capital redemption reserve	C9		1,764		1,764
Profit and loss account	C9		67,540		73,634
Shareholders' funds			91,380		97,474

These financial statements were approved by the Board of directors on 14 December 2012 and were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 05304743.

Notes to the Company's Financial Statements

for the year ended 30 September 2012

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

All fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation is charged to the profit and loss account on the following bases:

- Fixtures and fittings – 15% reducing balance;
- Computer equipment – straight-line basis over three years; and
- Leasehold improvements – straight-line basis over the life of the lease.

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

The Company operates equity settled, share-based compensation plans comprising awards under a Long Term Incentive Plan ("LTIP") and a Company Share Option Plan ("CSOP") for certain employees. The fair values of these schemes are measured at their fair value at the date of grant. The fair value is then recognised as an employee cost, with a corresponding increase in equity, on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest.

The fair value of each scheme is measured using an option pricing model. The awards under both schemes were measured using a Black–Scholes model.

Notes to the Company's Financial Statements

for the year ended 30 September 2012

C1 Accounting Policies continued

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 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 £2,764,000 (2011: £5,564,000).

C2 Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report on pages 30 to 33.

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 Tangible Fixed Assets

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 30 September 2011	166	38	71	275
Additions	1	3	1	5
At 30 September 2012	**167**	**41**	**72**	**280**
Accumulated depreciation				
At 30 September 2011	59	19	36	114
Charge for year	17	3	20	40
At 30 September 2012	**76**	**22**	**56**	**154**
Net book value				
At 30 September 2012	**91**	**19**	**16**	**126**
At 30 September 2011	107	19	35	161

C6 Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 1 October 2011	155,355	155,355
Additions	–	–
At 30 September 2012	**155,355**	**155,355**
Provisions		
At 1 October 2011	24,469	24,469
Impairment charge for year	559	559
At 30 September 2012	**25,028**	**25,028**
Net book value		
At 30 September 2012	**130,327**	**130,327**
At 30 September 2011	130,886	130,886

During the year the Company subscribed for shares in the following entities:

LSR Gresham Asset Advisers Limited, one share of £1 which represents a 100% holding; and
LSR Gresham Investments Limited, one share of £1 which represents a 100% holding.

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 long-term nature of the property investments held, which is commensurate with the long-term 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 in the medium term.

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	Dormant	100%
NOS 2 Limited	Property investment	100%
NOS 3 Limited	Property investment	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	Property investment	100%
Gilfin Property Holdings Limited	Property investment	100%
LSR Asset Management Limited	Property management	100%
NOS Residential Limited	Property investment	100%
LSR Asset Services Limited	Property management	100%
LSR Investment Services Limited	Dormant	100%
LSR Gresham Asset Advisers Limited	Property management	100%
LSR Gresham Investments Limited	Property investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

Notes to the Company's Financial Statements

for the year ended 30 September 2012

C7 Debtors

	2012 £000	2011 £000
Amounts owed by Group undertakings	7,820	5,930
Other debtors	14	7
Prepayments	102	95
	7,936	6,032

C8 Creditors

	2012 £000	2011 £000
Trade creditors	108	68
Amounts owed to Group undertakings	46,548	39,380
Other taxation and social security	36	38
Accruals	466	352
	47,158	39,838

C9 Reconciliation of Shareholders' Funds

Share Capital

	2012 Ordinary 20p Shares		2011 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 1 October 2010	3,742	1,764	82,288	87,794
Dividend	–	–	(3,093)	(3,093)
Share-based payments	–	–	3	3
Loss for the financial year	–	–	(5,564)	(5,564)
At 1 October 2011	3,742	1,764	73,634	79,140
Dividend	–	–	(3,337)	(3,337)
Share-based payments	–	–	7	7
Loss for the financial year	–	–	(2,764)	(2,764)
At 30 September 2012	**3,742**	**1,764**	**67,540**	**73,046**

Investment in Own Shares

At 30 September 2012, 9,164,017 shares were held in treasury (2011: 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 years.

Date paid	Dividend per share	Total payment £000	Classification of dividend
30 June 2012	2.0 pence	1,628	PID
30 December 2011	2.1 pence	1,709	non-PID
30 June 2011	1.9 pence	1,546	PID
31 December 2010	1.9 pence	1,546	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").

A dividend of 2 pence per share will be paid by 31 December 2012 as a PID.

Glossary of Terms

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.

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