the **Local Shopping** reit plc

Investing in Local Shops

The Local Shopping REIT plc

Annual Report 2008

ready and *prepared*

We have shown flexibility in adapting our strategy to allow us to operate effectively in a challenging property market. As a result, the business is in a strong financial position which provides us with confidence that we are ready to act on opportunities as they present themselves.

1 Overview

2 How We Performed

3 Management and Governance

4 Financial Statements and Notes

Who We Are

The Local Shopping REIT plc ("LSR") is a major owner of local retail property in the UK, listed on the London Stock Exchange.

Our investment objective is to provide our shareholders with an attractive and growing level of income, with additional capital growth through active asset management.

We were the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK and intend to become the leading owner of local retail property in the UK.

Our investment policy is to acquire local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Our portfolio typically comprises 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 there is no concentration of risk in a particular retail sector, as demonstrated on page 2. Our intention is to maintain a high level of diversification. The Company currently has the power under its Articles to borrow up to an amount equal to 65% of gross assets at the time of drawdown.

We believe in sustaining the local trading community nationwide and dealing with all our stakeholders in a fair and open manner.

Operational Highlights

- Portfolio now comprises 641 properties, with 2,009 letting units, following an active programme of acquisitions and disposals during the year:
  - 42 properties sold for £13.5m at a blended yield of 6.18%, together with 56 residential flats for £3.1m, 54 of which were sold during the second half of the year for £3.0m (31 March 2008 value: £2.9m); and
  - 46 properties acquired for £11.8m at a blended yield of 7.68%. All but ten of these acquisitions were completed in the first half of the year.
- Continued success in active management initiatives:
  - 89 new lettings secured, generating an annual rental income of £1,049,416 (2.6% above market rent), of which 54 were let in the second half, producing rental income of £690,461 per annum;
  - Rental increase of £383,785 per annum, an average uplift of 12.0% (5.1% above market rent), generated through 255 rent reviews, lease renewals and surrender and re-lettings carried out during the year;
  - Planning consent secured for 16 flats and two retail units; and
  - Nine change of use applications approved.

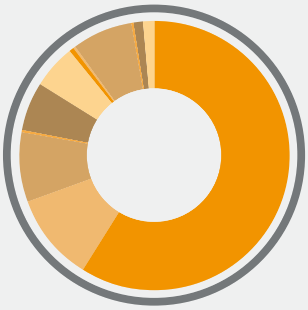
Financial Highlights

- Recurring profit* £5.1m (30 September 2007: £1.7m)
- IFRS loss for the financial year £40.5m (30 September 2007: £8m)
- Net Asset Value (NAV) of £93m or 112p per share (30 September 2007: £152m or 156p per share)
- Market value of portfolio £202.3m (30 September 2007: £249.3m)
- Annual rent roll of £16.1m (30 September 2007: £17.1m)
- Total debt of £116.9m, reflecting an LTV of 55.9% and gearing of 116.1%; new £60m loan facility arranged in September. The Company has £60m of undrawn facilities with an average maturity in excess of seven years
- Dividend of 2.875p per share paid on 31 December 2008, to shareholders on the register on 12 December 2008, which was paid as a non-PID (normal dividend)

* For calculation see page 12.

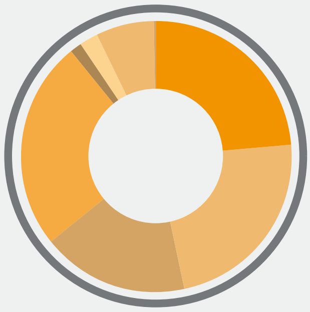
LSR at a Glance

Use Type % of Market Rent



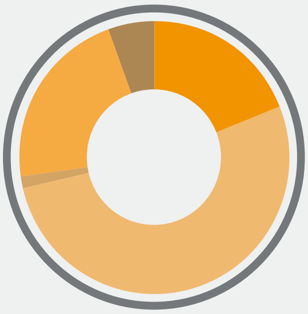
Planning Use

- 58.9% – A1 Shops
- 10.6% – A2 Financial
- 8.3% – A3 Cafes/restaurants
- 0.3% – A4 Pubs
- 5.9% – A5 Takeaways
- 5.3% – B1 Offices
- 0.5% – B2 Industrial
- 0.2% – B8 Storage
- 7.5% – C3 Residential
- 0.2% – D1 Institutional
- 1.1% – D2 Leisure
- 1.2% – Miscellaneous



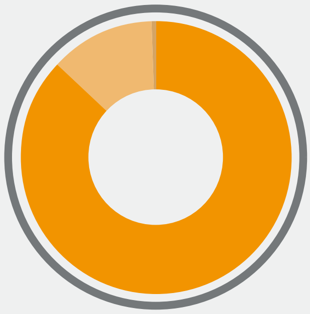
Lease Expiry Profile

- 23.7 % – 0-3 years
- 23.1% – 3-6 years
- 17.6% – 6-9 years
- 24.9% – 9 years +
- 1.4% – Vacant (residential)
- 2.3% – Vacant (deliberate)
- 6.9% – Vacant (commercial)
- 0.1% – Rent guarantee



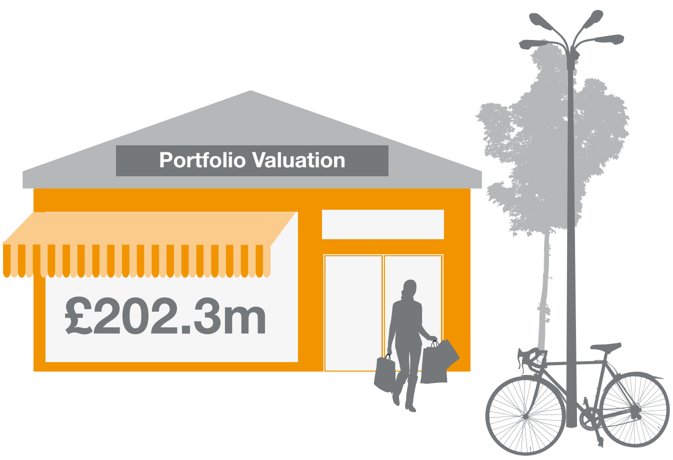
Tenant Grade

- 19.0% – Local company
- 52.7% – Individual
- 1.3% – Government
- 21.7% – National multiple
- 5.3% – Regional multiple

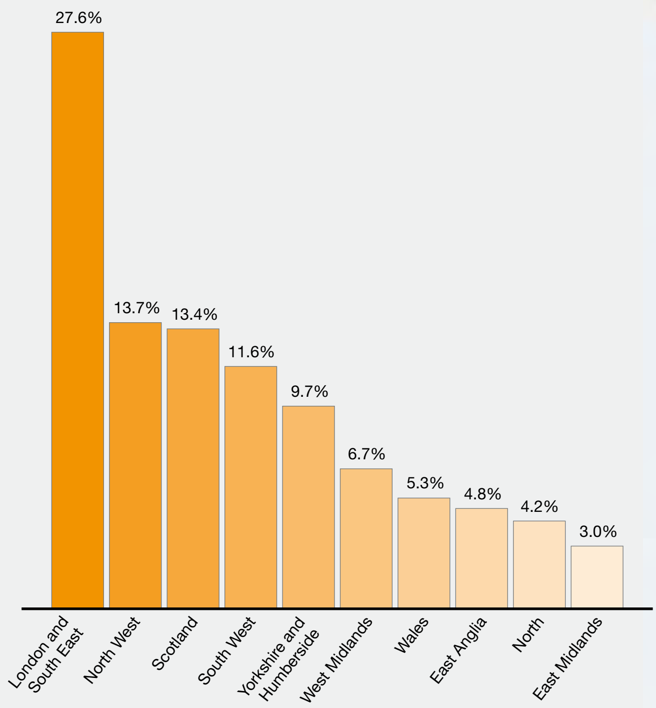


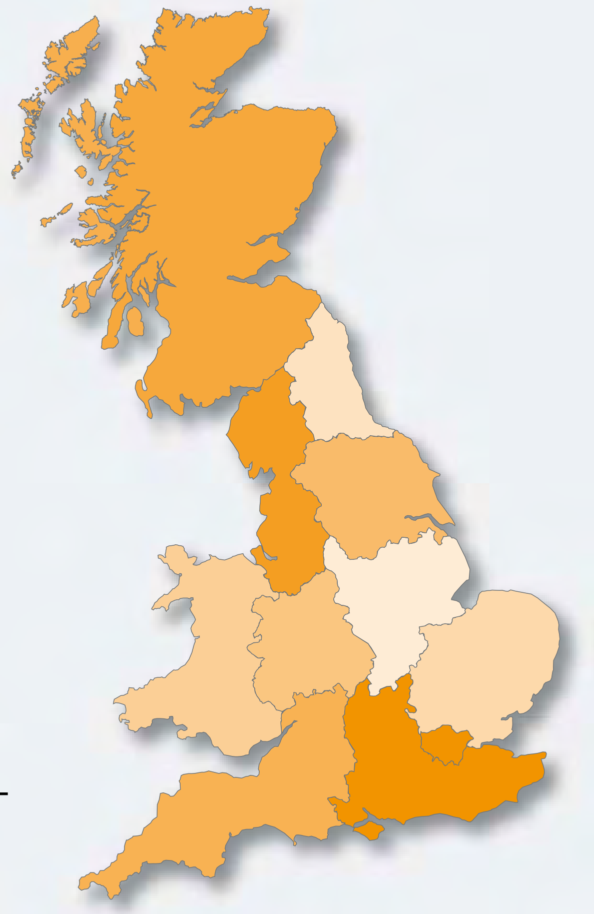
Statistics for Tenure

- 87.1% – Freehold/virtual freehold
- 12.5% – Leasehold
- 0.4% – Short leasehold < 50 years



Geographic Spread % of Market Rent





Chairman's Statement

"Despite this testing environment, the Company has been very active. During the year we adapted our business model to put the Company in the best position to operate in and take advantage of a changing marketplace."

Grahame Whateley
Chairman

I am pleased to announce the Company's results covering the 12 months to 30 September 2008.

The period under review has been challenging, with the rapid deterioration in market conditions well documented. In December 2007, I reported that we were entering more testing and unpredictable times in the commercial property market. Since then, the commercial property market has deteriorated further, with the downturn accelerating towards the end of the year as the ongoing fall-out from the global credit crunch led to the collapse and near-collapse of a number of "blue chip" financial institutions in September 2008. As liquidity dried up in the wider financial system, transaction volumes and prices in the property market fell sharply.

However, despite this testing environment, the Company has been very active. During the year we adapted our business model to put the Company in the best position to operate in and take advantage of a changing marketplace. From the strong financial platform that we have established, we have this year increasingly focused our efforts on asset management and completing the sales of lower yielding and ex-growth properties. During the year, we acquired 46 properties and sold 42 retail units plus a further 56 residential flats. This leaves us with a portfolio of 641 properties, which provide us with wide geographical and tenant diversification. Over the year we have seen an increase in our void rate from 5.6% to 10.6% of market rent; as the portfolio settles down, we undertake a more active approach to asset management and, more recently, in light of evolving market conditions. However, we believe that our diverse occupier base, with its non-discretionary bias (71.7% of whom are local independent traders), coupled with our affordable rental levels (the average shop rent is below £13,000 per annum) will prove resilient in the tough trading environment that lies ahead.

Our highly active approach to asset management continues to produce encouraging results, with 89 vacant units re-let at a total combined rent of more than £1m per annum and 255 rent reviews, lease renewals and surrenders and re-lettings generating an additional annual income of £383,785. A detailed description of these asset management programmes are provided in our Joint Chief Executives' Business Review on pages 7 to 10.

Strategy

Our investment policy is to acquire local shops in urban and suburban areas by investing in neighbourhood and convenience properties throughout the UK. Our core objective is to provide our shareholders with an attractive and growing level of income with additional capital growth generated through active asset management initiatives. Our diverse portfolio offers us the opportunity to grow rents from a low and affordable level. In the current challenging economic climate, we will aim to maximise shareholder value by continuing our strategy of selling ex-growth and lower yielding properties, which will provide us with sufficient cash reserves to enable us to exploit future opportunities as they arise, as well as deploying our long-established and professional asset management skills to add value to the existing portfolio. The Company has a unique asset management capability, being able to add value expertly to a large and varied portfolio of smaller commercial properties which are located across the UK. Over the coming months, we will continue to look for opportunities to use this expertise to generate additional value.

Results

During the year the Company made a recurring profit of £5.1m (6.1p per share), the calculation of which is provided in the financial review.

In common with other real estate companies we have been adversely affected by the fall in the portfolio value and a loss on the fair value of our swap agreements due to interest rate falls between 30 September 2007 and 30 September 2008. We have disclosed these amounts separately on the face of the income statement to show more clearly the result from the operating business. The result for 2007 includes the previous capital structure of the Group prior to the flotation, therefore, it is not possible to make a meaningful comparison between results year on year.

Our net asset value per share has fallen to 112p per share compared to 156p in 2007. This is mainly as a result of the fall in property values. However, the impact of this fall has been reduced by the ongoing share buyback programme, which has improved net asset value by 12p per share. The adjusted net asset value per share (adjusted for the fair value of the fixed rate debt) has fallen to 113p per share compared to 159p in 2007.

Revaluation

As at 30 September 2008, the portfolio was revalued at £202.3m, a fall of £47.0m from the £249.3m portfolio valuation at 30 September 2007. On a like-for-like basis the properties fell in value by 17.7%.

Financing

As at 30 September 2008, Company borrowings totalled £116.9m, all of which were secured against certain of our properties. Our two fully drawn loans expire in 2016 and have economic interest rate hedging at an average interest rate, including margin, of 5.69%. The drawn loans both also benefit from having no loan-to-value default provisions and low interest cover tests, which provides comfort in these unpredictable times. The loan-to-value ratio at 30 September 2008 was 55.9%, with a corporate gearing ratio of 116.1%.

The fair value of debt at 30 September 2008 was £115.9m, which is £1.0m lower than the book value. This benefit is reflected in the Company's adjusted NAV.

During the year we restructured our undrawn loan facilities with HSBC and a new £60m loan was arranged. This loan comprises a £25m term facility and £35m revolving credit facility, which both expire in October 2016. The interest margin is set at between 0.8% and 1.6% depending on the loan-to-value ratio. These two facilities are currently undrawn, providing ample funding flexibility for the foreseeable future.

The effect of the above measures is that LSR is in a very secure financial position, both in terms of cash and available facilities secured through the strong working relationships it has built with its banking partners. The Company will be able, when the time and market conditions are appropriate, to act quickly upon opportunities it believes will generate shareholder value.

Dividend

I am pleased to announce a final dividend of 2.875p per share, which is in line with the revised policy announced at the half year where the Board stated its intention to pay 100% of recurring future profits as a dividend. The dividend was paid as a non-PID (normal dividend). This will take the dividend paid for the year to 5.75p per share. The allocation of future dividends between PID and non-PID will vary.

The dividend was paid on 31 December 2008, to shareholders on the register on 12 December 2008. The ex-dividend date was 10 December 2008.

Share Buybacks

During the year the Board has continued with its strategy to repurchase shares, with the firm belief that this will add value to our existing shareholders. During the year to 30 September 2008 we repurchased 14,885,005 shares at an average price of 82.1p. The total number of the Company's shares in issue stood at 92,344,870 on 30 September 2008 of which 9,234,017 were held in Treasury and 1,098,339 were held by the Employee Benefit Trust (which has waived its right to a dividend).

The Board believes that the Company's share price does not reflect the intrinsic value and potential of its portfolio of assets or its ability to create value from its existing holdings and that utilising its ability to buy back shares is a productive and efficient method of enhancing shareholder value in the current market.

Outlook

We have adapted our business model over the year to ensure the Company is well positioned with solid financial foundations. We believe that the current downturn in the property market is likely to provide us with more accretive acquisition opportunities in the future but we have not yet reached that point. Until we are clear that liquidity is returning to the market, the Company's primary focus over the next 12 months will be to defend and create value for our shareholders through the active asset management of our existing portfolio, together with share buybacks where appropriate and the sale of our lower yielding and ex-growth properties.

Our portfolio remains well balanced and diversified by both tenant type and geography. Our core tenant base – independent traders – rely less on discretionary spend than retailers in the traditional high street. As such, while they will undoubtedly be impacted by the challenging trading environment, we believe that they will work hard to maintain the value of their businesses during the tough times ahead. In addition, the benefits and value of our active asset management programmes have started to flow through and will continue to do so over the next few years. This, combined with the high yield from our diversified properties, we believe will continue to underpin our business model.

As detailed in the statements overleaf, we have shown flexibility in adapting our strategy to allow us to operate effectively in a challenging property market. As a result, the business is in a strong financial position which provides us with confidence that we are ready to act on opportunities as they present themselves and that we will deliver on our goal of creating shareholder value in the future.

Grahame Whateley
Chairman
9 January 2009

community *focused*

We understand the long-term importance of sustaining a local community. We aim to build strong relationships with our tenants and through these relationships we hope to help support the local area for the future.

Joint Chief Executives' Business Review

"Our financial strength gives us confidence that we can cope comfortably with challenging market conditions and that we are in a strong position to be able to take advantage of the highly accretive buying opportunities that we expect will emerge toward the latter part of the year ahead."

Nick Gregory
Joint CEO

Mike Riley
Joint CEO

Portfolio Value

2008	£202.3m	-18.9%
2007	£249.3m	

Rent Roll

2008	£16.1m	-5.8%
2007	£17.1m	

Number of Properties

2008	641	+1.6%
2007	632	

Number of Tenants

2008	2,009	+1.7%
2007	1,976	

The past year has witnessed a sharp and sustained downturn in the UK property market. In the review below, as well as commenting on changes over the past 12 months we also make comment, where appropriate, on changes since the portfolio was last valued on 31 March 2008.

Portfolio Performance

Our portfolio was revalued at the year end at £202.3m, reflecting an equivalent yield (excluding residential element) of 8.52%. It now comprises 641 properties, with 2,009 letting units, and produces annual rental income of £16.1m.

Combined Portfolio

Value	£202.3m
Initial yield	7.57%
Reversionary yield	8.48%
Equivalent yield*	8.52%
Rent pa	£16.1m
Market rent pa	£18.0m
Commercial value	£185.7m
Residential value	£16.6m

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0 – £100k	101	7.9	8.47%
£101 – £200k	245	36.4	8.27%
£201 – £500k	185	55.9	8.38%
£501k – £1m	82	55.3	8.44%
£1 – £3m	26	38.0	8.90%
£3m +	2	8.8	9.30%
Total	**641**	**202.3**	**8.52%**

* Excluding residential element.

The table above illustrates the range of property values throughout the portfolio. The average property value is £0.315m and the median is £0.185m.

During the year our external valuers and the directors have adopted a more cautious approach to the valuation of the residential element of the portfolio. The valuation of £16.6m has been based on 80% of vacant possession value (down from 90% at 30 September 2007 and 85% at 31 March 2008). The average value of one of the residential units in our portfolio is below £58,000.

On a like-for-like basis, the properties owned throughout the year recorded a fall in value of 17.7%, making allowance for properties where we sold off part, with the equivalent yield (excluding the residential element) moving out 142bps to 8.53%. In comparison, the Jones Lang LaSalle/IPD ARAS Report Q3 2008, which provides a reasonable proxy for our smaller lot sizes and is based upon actual transactions in the auction rooms, recorded a 132bps outward yield shift in its average initial yield over the same period.

Like-For-Like Portfolio – Adjusted for Part Sales

	30 September 2008	30 September 2007	Change
Value	£191.7m	£233.0m	-17.7%
Initial yield	7.54%	6.55%	+0.99%
Reversionary yield	8.49%	7.06%	+1.43%
Equivalent yield*	8.53%	7.11%	+1.42%
Rent pa	£15.2m	£16.1m	-5.4%
Market rent pa	£17.1m	£17.3m	-1.2%
Commercial value	£175.4m	£213.8m	-17.9%
Residential value	£16.2m	£19.2m	-15.5%

* Excluding residential element.

This fall in value accelerated over the second half of the year as the market deteriorated. Between 31 March 2008 and 30 September 2008, our portfolio recorded a fall of 12.5% on a like-for-like basis, with the equivalent yield moving out 98bps.

Acquisitions and Sales

Since 30 September 2007, we have acquired 46 properties for a total consideration of £11.8m at a blended yield of 7.68%, although only ten of these properties, bought for £3.2m, were purchased during the second half of the year. Since the year end there have been no further acquisitions. During the first part of the reporting period, we recognised that the market was turning and we reacted quickly, withdrawing from a number of property purchases where, in the light of the rapidly deteriorating conditions, we did not think that the acquisitions would generate sufficient shareholder value over the long term. As a result, we incurred abortive acquisition costs of £98,000 which we do not expect to recur.

In line with our revised strategy, we have switched our efforts from acquisitions to sales and we are pleased to report that we continue to make solid progress in a difficult investment market. During the year, we sold 42 properties for £13.5m at an average yield of 6.18%. Of these properties 23 were sold during the second half of the year for a total of £7.3m and at an average yield of 6.45%, showing a £0.26m surplus over the 31 March 2008 valuation. We also sold 56 flats during the year for £3.1m, 54 of which were sold during the second half for £3.0m (31 March 2008 value: £2.9m). The previously unused upper floors of a shop in Goole were also sold for £0.13m, after we successfully secured planning consent for the development of five residential flats.

Since the year end we have completed the sale of a further nine properties for £1.7m at an average yield of 7.2% (30 September 2008 valuation: £0.8m). Over the coming year we intend to sell further properties, but given current market conditions, we anticipate that the average yield on disposal will rise.

Asset Management

The Company has a unique asset management capability, being able to add value expertly to a large portfolio of smaller commercial properties located across the UK. We are pleased to report that we continue to achieve strong results by applying these skills to our diverse portfolio.

During the year, we let 89 commercial units at a combined rent of £1,049,416 per annum at 2.6% above market rent. Encouragingly, 54 of these units were let during the second half of the year at a rent of £690,461 per annum. Highlights included an atypical unit in High Street, West Bromwich (purchased as part of a portfolio), which was let for £70,000 per annum against a market rent of £60,100 per annum and four units at Stretford Road, Manchester, which were let to three tenants at a combined rent of £29,500 per annum over an eight-week period in August/September following a reduction in quoted terms. The latter deal shows the benefits of adopting a flexible leasing approach and using Law Society leases to quickly convert interest into completed lettings.

Over the year, rent reviews on 181 units have increased rental income by a total of £265,765 per annum, reflecting an average uplift of 11.3%, and 3.9% above market rent. Lease renewals on 50 units have added a further £77,162 of rental income per annum (an average uplift of 16.6%, and 8.5% above market rent). In addition, we have surrendered and re-let 24 units, adding a total of £40,858 per annum (an average uplift of 10.9%, and 8.1% above market rent).

In line with our strategy to deliver value from the under-used upper parts of our shops, or unused adjacent land, we have secured planning consents for two retail and 16 residential units. As at 30 September 2008, we had lodged two appeals against the refusal of consent for a further ten flats. Over the year, we also secured a number of change of use consents: three units were changed from A1 (shops) to A2 (financial and professional services), four units to A3 (restaurant/café), and one unit to A5 (hot food takeaway). In addition, we secured one change of use consent from offices to residential.

While our team undertakes a large volume of asset management initiatives, we continue to minimise costs, where possible, by using standard form Law Society leases on short-term lettings of smaller units, while the majority of rent reviews are dealt with in-house and without recourse to third-party determinations.

Financing

The Company has two fully drawn loans, from HSBC (£47.7m) and Barclays (£69.2m). Both loans have no ongoing loan-to-value default provisions and low interest cover default tests (HSBC 115% actual and 107% projected, Barclays 110% actual or projected, with a cash trap at 120%). The last interest cover ratios reported in October 2008 were 194% and 168% respectively.

During the year, we restructured our undrawn facilities with HSBC and entered into a new £60m facility. This facility comprises a £25m term loan, to be fully drawn before September 2009 unless extended, and a £35m revolving credit facility. The term of both loans is until October 2016, and they have a loan-to-value covenant of 80% during the drawdown period only. Both loans have interest cover default tests at 120% actual and 110% projected. The margin on the loans vary between 0.80% and 1.60%, depending on the loan-to-value ratio, and a commitment fee of 0.3% per annum is payable on the undrawn balance of the revolving facility.

In addition, we own properties valued at £55.2m on which there is no debt attached. Added to our new £60m facility, this provides us with the flexibility and firepower to exploit future market opportunities as they arise. Together with our other loans, it provides the Company with a solid financial foundation.

Occupier Market

Despite the difficult economic climate we believe our rents remain affordable, which is demonstrated by our success in letting vacant units and consistently achieving increases on rent reviews and lease renewals. Our average shop rent of only £11.72 per sq ft, or £12,645 per annum (£243 per week), gives us scope to grow rents, whilst still maintaining their affordability. However, while the letting market for smaller units has so far remained relatively robust, the market for larger units, which typically appeal to national retailers, has weakened considerably during the year. Although we have had some success in letting our larger void units, the incentive packages required to secure lettings to national retailers have increased substantially.

As at 30 September 2008, our overall void rate was 10.6%, up from 9.5% on 31 March 2008 and 5.6% on 30 September 2007.

Void Rate

	30 November 2008	30 September 2008	31 March 2008	30 September 2007
Vacant – Commercial	6.9%	6.9%	5.3%	3.4%
Vacant – Deliberate	2.0%	2.3%	2.0%	0.7%
Vacant – Residential	1.1%	1.4%	2.2%	1.5%
Total	**10.0%**	**10.6%**	**9.5%**	**5.6%**

The commercial void rate has risen to 6.9%, up from the 3.4% reported at 30 September 2007. While an element of this is due to increased tenant default in a deteriorating economic climate, the rise also reflects the fact that during the year we largely stopped purchasing fully let properties and switched our efforts towards selling properties, which are also fully let. The three largest commercial voids on 30 September 2008 were at Wishaw (market rent £46,500 per annum), Braintree (£32,500 per annum) and Chelmsford (£32,000 per annum). Since the year end we have concluded an agreement for lease at Wishaw at a rent of £46,500 per annum and the unit at Chelmsford is under offer at £38,500 per annum.

Over the year we increased the level of deliberate void from 0.7% to 2.3% as we sought more actively to exploit opportunities for change of use and reconfigure units to secure increased rents. At 30 September 2008 the residential void rate was 1.4%. At the beginning of the period, we were concentrating our efforts on selling our residential units, therefore leaving them vacant ahead of sale. As a consequence, the residential void rate rose to 2.2% on 31 March 2008. However, when the market for residential sales weakened sharply in the second half of the year, as mortgage availability dried up, we switched our focus back to letting the vacant units and have since reduced the void rate down to 1.4%. Encouragingly, despite further sales of fully let properties, at the end of November the overall void rate had fallen from 10.6% to 10.0%, with commercial voids remaining static, deliberate voids down 0.3% and residential voids also down 0.3%.

During the year we, in common with the industry, have seen an increase in bad debts as the UK economy moves towards recession. We are typically taking a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let and improve the quality of our cash flow. As a result, bad debt write-offs in the year rose to £734,489 (30 September 2007: £219,899). However, we also recognise that there may be occasions 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 difficult. Similarly, we are taking an increasingly pragmatic approach to letting vacant units in order to mitigate any increase in voids and associated costs.

From April 2008 we have been obliged to pay 100% of the rates liability on empty retail units following a three-month grace period, up from the previous 50%. This is an unwelcome additional financial burden in the current market and we estimate that it has led to an increase in empty rates payable of over £100,000 during the second half of the year. The November 2008 Pre-Budget Report announced that properties with a rateable value of under £15,000 per annum would be exempt from empty rates charges for the fiscal year 2009-2010. While, disappointingly, this is only a temporary measure, we estimate that approximately two-thirds of our vacant units fall into this category which will have a positive impact on earnings.

When we let units to independent tenants, it is our policy to seek rent deposits of between three to six months. As at 30 September 2008, we held deposits totalling approximately £800,000, or nearly 20% 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.

Investment Market

In our last Annual Report we noted that, during the late summer of 2007, we had witnessed a significant reversal in sentiment within the property market, which had adversely impacted investment yields. In the past 12 months the investment market has weakened further, with the downturn gathering momentum as the year progressed. While the market for smaller lot sizes initially proved more resilient, the increasingly restricted availability of bank finance has severely limited liquidity in the market. However, there is still selective interest from private investors and owner occupiers who have a limited requirement for debt funding. While sales rates at auctions are down considerably, the London-based commercial auction houses are still managing to sell approximately 60% of the lots offered, which provides some transparency on the pricing of smaller lot sizes in the current market. Nevertheless, the lack of investment demand points to a continuing fall in capital values and we expect to see further falls over the first six months of the year.

Business Outlook

Over the past 12 months, we have witnessed an accelerating deterioration in the commercial property market. Over the coming months we anticipate that our tenants will face more challenging trading conditions as the economy battles with recession. Against this backdrop, our highly active approach to managing the portfolio will allow us to monitor and deal with difficulties faced by our tenants, while a flexible and proactive approach to lettings will help us maintain the quality of our cash flow.

We expect that the decline in capital values will continue until liquidity returns to the market and do not expect this to happen, at the earliest, until the second half of 2009. To date, we have seen little evidence of forced selling prompted by lenders, as they continue to evaluate the quality of their loan books, but we anticipate bank-led sales will accelerate over the course of 2009 – a situation we are well positioned to exploit.

Our financial strength gives us confidence that we can cope comfortably with challenging market conditions and that we are in a strong position to be able to take advantage of the highly accretive buying opportunities that we expect will emerge toward the latter part of the year ahead. In the meantime, however, we are confident that there will also be opportunities for us to use our unique asset management capability to work with lenders on their problem loans.

Staff

As staff have left the Company over the past year, we have chosen to absorb their workload and this has resulted in a headcount reduction of 20%.

We would like to take the opportunity to thank all of our staff who have contributed to our business over the past year and also our wider team of advisers who enable us to work towards achieving our goals in these challenging times.

Mike Riley & Nick Gregory
Joint Chief Executive Officers
9 January 2009

Financial Review

This report is prepared in accordance with International Financial Reporting Standards (IFRSs). No new IFRSs have become effective during the year which have impacted on the results of the Group.

Key Performance Indicators

In addition to specific measures used to monitor the property portfolio, the following key performance indicators are used by the directors to review the performance of the business and to ensure compliance with banking covenants:

	30 September 2008	30 September 2007
Interest cover*	175.6%	89.1%
Loan-to-value ratio**	55.9%	39.6%
Adjusted NAV per share***	113p****	159p****
Gearing (net of cash held)	116.1%	60.9%

* Based on loss before tax and interest adjusted for revaluation movements and other expenses.
** Net of cash held on substitution to buy properties.
*** Based on 83,110,853 shares in issue at 30 September 2008 (2007: 97,539,040).
**** Adjusted for fair value movements in loans not recognised on balance sheet.

The comparative KPI's are still affected by the capital structure in place prior to the flotation of the Company on 2 May 2007.

Trading Results

Rents received during the year have grown year on year reflecting the acquisition of new properties mainly in the previous year and from rental growth achieved on the existing portfolio. However, the annual rent roll going forward has fallen as a result of sales and an increasing void rate, as explained in the Business Review.

Property operating expenses are 15.7% of rental income in the current year compared to 12.5% in the previous year. These costs include: legal and agents' fees incurred in asset management activities, managing agents' fees, void costs incurred on empty properties and bad debts. Asset management costs are higher than in the previous year as, prior to flotation, the portfolio was less actively managed, with efforts focused on building the portfolio. Void costs have increased as the void rate within the portfolio has risen and the impact of the reduction in empty rates relief has also contributed to the increase in costs. During the later part of the year, the amount of bad debts incurred have also increased as a more prudent approach has been taken in the current economic climate.

During the year 98 properties (2007: two) have been sold, which has resulted in a profit in excess of their carrying value of £48,000 (2007: profit of £83,000). This includes the sale of commercial properties and residential flats situated above shops to both investors and owner occupiers.

Overall, there has been a marginal increase in the number of properties owned by the Group during the year. However, the fair value of the properties the Group owns has fallen by £44.4m (2007: £6.4m). This has been included in the income statement for the year as required by IFRS. In accordance with the Group's accounting policy, at the half year and year end 25% of the portfolio, together with all new purchases over the year have been valued by an independent professional firm and the remainder of the portfolio has been valued by the directors, who have appropriate qualifications and knowledge of the market to complete the valuation.

Administrative expenses have continued to be well controlled at 16.6% of rental income (2007: 19.6%). The amount of administrative expenses incurred has increased compared to 2007 as the Company has been listed for a full year. These costs are monitored regularly for any cost saving opportunities.

Financing Income

The Group has retained interest rate swaps in excess of the variable rate of debt owed since flotation, in readiness to cover future draw downs of the debt facilities. However, given the limited buying opportunities in the current market it was decided, in June 2008, to reduce this position as the Group does not speculate in treasury products and may not increase its borrowings in the short term. Therefore, £21m of excess swaps held were sold generating a cash inflow of £229,000 (2007: £Nil). This amount has been included in financing income. The Group remains over hedged by £11.3m (2007: £50.4m).

Financing Costs and Available Facilities

The fair value of the interest rate swaps used to hedge the interest rate exposure on the Group's HSBC loan has fallen compared to the prior year and consequently an expense of £1.3m (2007: income of £0.5m) has been recognised. None of the swaps held qualified as effective swaps for hedge accounting under the criteria set out in IAS 39 so these losses have been recognised in the income statement.

During the year further draw downs of £17.7m were made from the HSBC facility with the loan balance at the year end being £47.7m (2007: £30m). The remainder of the facility, £27.3m, lapsed and no further draw downs can be made. A new facility of £60m with HSBC was then negotiated and at the year end none of this facility had been drawn. This facility comprises a £35m revolving facility and a £25m fixed term loan.

The companies that are party to each loan agreement have no loan-to-value default provisions to satisfy once the drawn down periods have expired. The covenants contained with the facility agreements relate to actual and forecast interest cover.

Corporate Acquisitions

No corporate acquisitions have been completed during the current year.

Recurring Profits

The Group's recurring profits have been calculated as follows:

	30 September 2008 £000	30 September 2007 £000
Loss before tax	(40,470)	(4,262)
Movement in fair value of portfolio	44,358	6,424
Movement in fair value of swaps	1,347	(516)
Profit on sale of swaps	(229)	–
Profit on sale of investment properties	(48)	(83)
Abortive purchase costs	98	123
	5,056	**1,686**

In the later part of 2007, a strategic decision was taken to withdraw from a considerable number of property purchases given the onset of the credit crunch and subsequent fall in property values. This expense, which was a one-off item, is not expected to recur.

Taxation

The Group has continued to operate as a REIT throughout the year. Therefore, any profits and gains from investment properties arising during the year should be exempt from corporation tax provided certain conditions are met.

In accordance with the REIT legislation, the Group is required to analyse its business, for tax purposes, between its property rental business and other activities. The vast majority of rental income qualifies under the REIT rules as being derived from the property rental business and the directors do not consider that the Group operates any other type of business. Corporation tax remains payable on any interest income earned to the extent that losses from the residual business are not available to offset this. The Group does not expect to pay any significant amounts of corporation tax on any of its property rental business.

Dividends

An interim divided was paid on 30 June 2008 of 2.875p per share, as a Property Income Dividend (PID), as advised in the 2008 Half Year Report.

A final dividend of 2.875p per share (2007: 3.419p per share) was paid on 31 December 2008 to shareholders on the register at 12 December 2008. In accordance with IAS 10, the Company has not provided for this dividend in these financial statements as no dividend had been declared at or before the year end. The dividend was paid as a non-PID.

The dividend for the year represents 100% of the Group's recurring profits, which is in line with the intention stated in the 2008 Half Year Report.

Share Capital and Reserves

During the year the Company purchased 14,885,005 (2007: 2,953,750) shares at an average price of 82.1p (2007: 129.4p). It was necessary to cancel 8,147,920 (2007: Nil) of these shares. At the year end 9,234,017 shares (2007: 2,953,750) were held in Treasury. During the year a further 456,818 shares have been transferred to the Company's employee benefit trust ("EBT"), LSR Trustee Limited (2007: Nil) giving a total holding for the EBT of 1,098,339 (2007: 641,521). As in the previous year, the EBT will waive the dividend due on these shares and they are shown as a debit to reserves.

Cash Flows

The Company's underlying rental business generated cash inflows before the acquisition of further properties and interest payments of £14.3m (2007: £8.8m) and after interest and tax payments a cash inflow of £4.1m (2007: £1.4m).

Further debt was drawn down, resulting in a cash inflow of £17.7m (2007: £207m) and shares purchased in the year resulting in a cash outflow for the year of £13.6m (2007: inflow of £153m).

At the year end cash held had increased to £7.5m (2007: £5.6m).

Victoria Whitehouse
Finance Director
9 January 2009

Key Risks and Uncertainties

The directors have ultimate responsibility for identifying key risks to the business and identifying their potential and likely impact. The following have been identified as key risk areas:

- the UK's overall economic environment and significant changes in national or local economic conditions;
- interest rates, business taxes and other factors affecting occupational demand;
- the continued availability of financing at economic rates to fund the Company's acquisitions and development programmes;
- planning policy in UK localities;
- the legal environment and changes in legislation, central and local governmental rules and policies;
- the potential for loss of REIT status;
- individual tenant defaults;
- the continued availability of key personnel and the skills of the Company's property managers, agents and advisers;
- risks to the Company's reputation for ethical business practice;
- physical risks to properties and the continued availability of insurance cover with appropriate coverage at economic rates;
- market-led fluctuations in property values, impacting on the value of the Company's investments and its ability to continue to acquire properties at advantageous prices;
- unforeseen property costs including maintenance and repairs;
- local market fluctuations, resulting in rent reviews not achieving anticipated values;
- competition from other property investors and entrants to the market;
- significant increases in property construction and maintenance costs; and
- health, safety and environmental issues.

The executive directors consider and evaluate key risk areas on a continuous basis. Separate meetings are held each month with relevant members of the Company's operational management team to consider operational and asset management issues and initiatives and refurbishment projects. The Audit Committee has formal responsibility for reviewing the Company's approach to risk management and the safeguards in place. Significant items are discussed at Board meetings and the executive directors are in regular communication with the non-executive directors outside formal Board meetings to discuss key performance and risk aspects.

Within this framework, the following approaches to mitigate these risks and uncertainties are in place:

- the directors and their advisers constantly monitor the property and financial markets and the wider business environment;
- the Company has the ability to flex its property acquisition and disposal plans to take account of economic trends;
- the Company's funding facilities are flexible, long term, low cost and hedged;
- the directors monitor gearing levels to ensure they are maintained at a prudent level;
- the Company's management systems and outsourced operational approach are aimed at maximising efficiency whilst minimising overheads and long-term liabilities;
- the directors regularly review the Company's performance against the REIT regime requirements;
- the Company and its agents keep in close touch with tenants, monitoring the potential for default and taking appropriate action at an early stage;
- the Company's staff and its agents monitor the physical condition of properties to identify potential repair issues, implementing repair and preventative maintenance programmes as necessary; and
- the directors receive reports on health, safety and environmental issues at each Board meeting.

Corporate and Social Responsibility

Overview

We recognise that the success of our business is primarily dependent on:

- the talent and commitment of our employees;
- our partnerships with national and local advisers; and
- the well-being of the businesses that occupy our properties and the communities in which they operate.

These factors are fully taken into account at Board level and throughout the management of the business and are reflected in all our activities.

We recognise the importance of the effective management of health and safety and environmental considerations in relation to our workforce, partners, tenants and the local community.

Employees

With a relatively small workforce, we rely on constant and effective communication throughout the business. Regular meetings are held to review portfolio performance, investments and disposals and specific property issues and development initiatives. The importance of a two-way flow of information is firmly embedded in our culture and our employees are consulted on market conditions and investment strategy, as well as being informed of the Company's progress and plans.

Our employee reward policies are designed to enable us to attract and retain the skills we need to run a highly effective operation and, in particular, to recognise excellent contribution and generally align rewards to the success of the business.

We have in place firm anti-discrimination policies and we are also committed to the development of our people wherever appropriate. We support our staff in the development of their knowledge and skills, including attendance of formal education and training events.

Health, Safety and Welfare

We believe that the health, safety and welfare of our employees is superior to all other considerations. We recognise the particular risks faced by our staff when visiting remote sites. Our staff 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. The Company's health and safety record is considered at all the Board's regular meetings.

In managing our properties, we take proper account of the welfare considerations of their occupants. Our property managers and contractors are required to ensure that all maintenance and repair works conform to relevant regulations. We undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, addressing reported items and maintaining an ongoing programme of improvement works.

Business Ethics

Our ability to operate successfully in our market is largely dependent on the maintenance of our straight-forward approach to doing business and our reputation for integrity. We therefore require our employees and those who act on our behalf to behave and transact business in accordance with the highest professional standards. This includes complying with the regulations of any professional body to which they are affiliated. These requirements apply equally to dealings with third parties, professional advisers and tenants.

The Company has in place internal procedures enforcing the Model Code, Anti-money Laundering regulations, and the Data Protection Act, as well as customer care and external complaint guidelines. A "whistle blowing" procedure is in place, enabling employees to notify perceived irregularities to members of the Board. Whilst such matters would ordinarily be reported through the Company Secretary, employees may raise their concerns directly with an independent non-executive director.

Partnerships

Critical to our business model is the continued development of effective partnerships at a local and national level. Such alliances include:

- property sales and acquisition agents covering each locality in the UK;
- regional and local property managers;
- regional teams of property valuers;
- highly responsive arrangements with selected funding banks;
- legal advisers and support teams;
- local architects, planning consultants, project managers and quantity surveyors; and
- regional property maintenance and construction teams.

These teams are complemented by the valuable input of our corporate finance and legal advisers, as well as the support provided by our marketing, public relations and IT & communications consultants.

The well-being of these relationships is crucial to the success of our business. We therefore place considerable importance on our ongoing communications programme to ensure that our partners are kept aware of our progress and plans.

Community Involvement

We are aware that the success of our business model is to a major extent dependent on the prosperity of our tenants and the local communities in which they operate. We aim to attract and retain tenants by providing retail accommodation appropriate to their needs at a price that is affordable and in line with the local market. The needs of the local community are accordingly a conscious part of our decision-making process.

We were pleased with the success of our scheme to supply LSR drinks bottles to junior sports clubs and school teams local to our properties. Further details of this scheme can be obtained from our website.

Environmental Issues

We will support initiatives which can lead to sustainable environmental and social benefits. Within our head office we aim to use energy saving devices wherever possible and we have paper and plastic recycling arrangements in place. Fair trade office supplies are purchased wherever possible. We have made practical arrangements to encourage our staff to travel by public transport or to cycle or jog to the office to reduce our Company carbon footprint.

We believe that our business model encourages people to shop within working distance of their homes, avoiding unnecessary travel and our “local shops, nationwide” philosophy promotes good community relations in which local businesses thrive.

In our property development activities, we focus on investing in and upgrading existing property stock. It is not our policy to develop new commercial units, thereby minimising construction damage to the environment. Our development projects are in the main aimed at extending and improving facilities within existing building envelopes, often by creating residential flats. In doing so we supply additional housing stock within existing urban areas, reducing the impact of green field development. All works we undertake comply with relevant environmental requirements.

We aim to reduce our direct adverse environmental impact by lowering the general energy consumption of our business and use renewable sources of energy wherever possible. We have embarked on a programme of energy rating certification for our buildings and future development and refurbishment work will take account of the need to improve building ratings. Our policy of engaging local management and agency teams minimises travel and encourages a healthy working relationship with our tenants.

small team *large resource*

During the year we carried out 255 rent reviews, lease renewals and surrenders and re-lettings generating an additional annual income of £383,785.

Board of Directors

Grahame Whateley

Grahame Whateley – Independent Non-Executive Chairman

Aged 65, Grahame Whateley became Chairman of the Company in January 2005. He has worked within the property industry for 45 years, having founded the Castlemore group, of which he is also Chairman. He is also Chairman of the Cedar group of companies. He serves on the Company's Remuneration and Nomination Committees.

Andrew Cunningham

Andrew Cunningham – Senior Independent Non-Executive Director, Chairman of Audit Committee, Chairman of Nomination Committee

Andrew Cunningham, 52, joined the Board in May 2007. He qualified as a Chartered Accountant with Deloitte Haskins and Sells, becoming a partner in 1989. He joined Grainger PLC as Finance Director in 1996, where he became Deputy Chief Executive in 2002. Besides chairing the Audit and Nomination Committees, Andrew serves on the Remuneration Committee.

Nicholas Vetch

Nicholas Vetch – Independent Non-Executive Director, Chairman of Remuneration Committee

Aged 46, Nick Vetch was joint Chief Executive of Edge Properties, which he co-founded in 1989, before being taken over by Grantchester Properties plc in 1998. In the same year he co-founded Big Yellow Group PLC, where he remains Executive Chairman. He is a Chartered Surveyor and is also a non-executive director of Blue Self Storage S.L., a self storage operation in Spain. Besides chairing the Remuneration Committee, he serves on the Audit Committee.

Michael Riley

Michael Riley – Joint Chief Executive Officer

Aged 48, Mike Riley has worked in the property industry since 1986, having trained as a Chartered Surveyor with Hillier Parker. Following this he joined Chesterton International, becoming Managing Director of its property finance arm, De Groot Collis Financial Services Limited. He joined HBV Real Estate Capital in 1997, becoming Joint Managing Director in 1999. Mike was then at Quintain Estates and Development Plc from July 2001, holding the role of Chief Executive from March 2002. In October 2002 he moved to Castlemore Securities Limited, where he was a director until January 2005, when he became a director of the Company.

Nick Gregory

Nicholas Gregory – Joint Chief Executive Officer

Nick Gregory, aged 43, qualified as a Chartered Surveyor having trained at Chesterton from 1993. He then joined UBS Global Asset Management (UK) Limited where he was director responsible for acquisitions for the Triton Property Fund. In October 2002 Nick moved to Castlemore Securities Limited, where he was a director until January 2005, when he became a director of the Company.

Victoria Whitehouse

Victoria Whitehouse – Finance Director

Aged 35, Victoria Whitehouse trained as a Chartered Accountant with Felton & Co in Birmingham, qualifying in 1997. She then joined KPMG, becoming Senior Audit Manager. In 2005 she moved to ProLogis Developments Limited, where she was Group Financial Controller until January 2007 when she joined the Company, becoming Finance Director in May 2007.

Directors' Report

The directors present their report and audited financial statements of the Group and the Company for the year ended 30 September 2008.

Group Result and Dividends

The loss for the Group attributable to shareholders for the year was £40.5m (2007: loss of £8.1m). An interim dividend of 2.875p per Ordinary Share was distributed on 30 June 2008. A further dividend for the year of 2.875p per Ordinary Share was distributed on 31 December 2008 to holders of each of the Ordinary Shares in issue and entitled thereto on 12 December 2008.

Activities

The Group continued its activities in investing in properties throughout the United Kingdom, principally in local shops.

Business Review

The Business and Financial Review on pages 7 to 12 constitutes the directors' business review and forms part of this report.

The subsidiary undertakings of the Company are set out in note 22 to the financial statements.

Acquisitions and Disposals

The Group made no material acquisitions or disposals during the year.

Supplier Payments

The Group has a policy of paying suppliers in accordance with pre-agreed terms.

At 30 September 2008 trade creditors represent an average of 17 days' purchases (2007: 24 days).

Transactions in the Company's Shares

The Company's previous authority to purchase the Company's shares was extended at the Annual General Meeting in February 2008, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital at that time. During the year the directors continued the policy of buying back the Company's shares where this was considered to be in the best interests of the Company. 14,885,005 Ordinary Shares were purchased during the year, of which 14,377,317 Ordinary Shares were taken into Treasury.

The remaining 456,818 of the Ordinary Shares purchased, together with a further 30,000 Ordinary Shares from Treasury, were transferred, at Nil consideration, to the trustee of the Company's employee benefit trust, LSR Trustee Limited.

During the year, 8,147,920 Ordinary Shares were cancelled, of which 8,027,050 had been held in Treasury. The remaining 120,870 Ordinary Shares cancelled were cancelled immediately on their purchase by the Company. At 30 September 2008 the Company held 9,234,017 Ordinary Shares in Treasury.

Details of the Company's shares purchased and cancellations are set out in note 15 to the financial statements.

The Company's authority to purchase its shares expires at the 2009 Annual General Meeting, when a resolution will be proposed for its renewal.

Share Capital

The only class of the Company's shares in issue are Ordinary Shares. All of the issued share capital is fully paid up and all shares rank equally. The Company's issued share capital reduced during the year as follows:

Date	Event	Movement	Total Issue Shares
1 October 2007			100,492,790
2 July 2008	Cancellation of Treasury shares	(7,528,750)	92,964,040
2 July 2008	Cancellation of purchased shares	(120,870)	92,843,170
7 August 2008	Cancellation of Treasury shares	(498,300)	92,344,870
30 September 2008			92,344,870

REIT Regime

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

Charitable and Political Donations

During the year the Group made no donations to charitable organisations (2007: Nil) or for political purposes (2007: Nil).

Directors

In accordance with Article 111 of the Company's Articles of Association all of the Company's directors retired from office at the 2008 Annual General Meeting, not having been elected or re-elected at the Company's previous Annual General Meeting. All of the retiring directors were reappointed at that meeting. In accordance with the provisions of Article 111 Mike Riley will retire at the 2009 Annual General Meeting and, being eligible, will offer himself for reappointment.

Directors' Interests

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, all of which were beneficial, are set out below. None of the directors had any beneficial interest in any subsidiaries of the Company.

Director	30 September 2008	30 September 2007
Andrew Cunningham	14,368	14,368
Nick Gregory	500,000	500,000
Mike Riley	500,000	500,000
Nick Vetch	2,873,563	2,873,563
Grahame Whateley	7,660,918	7,660,918
Vickie Whitehouse	1,149	1,149

The holdings are all of Ordinary Shares of 20p each. Since the year end, Mike Riley and Nick Gregory have each purchased 75,000 Ordinary 20p Shares. Other than this there were no changes of directors' interests in shares between 30 September 2008 and the date of this document.

Directors' interests in employee share schemes are set out on page 25.

Substantial Shareholdings

As at the date of this document the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following major interests in voting rights attached to its Ordinary Shares of 20p each (which represent interests in 3% or more of its issued ordinary capital).

Name	No. of Shares	%
Schroders plc	12,086,005	14.54%
John Grahame Whateley	7,660,918	9.22%
AXA SA	5,048,350	6.07%
European Investors Inc	4,952,000	5.96%
Thames River Capital LLP	4,515,286	5.43%
Prudential plc	4,173,018	5.02%
FIL Limited	3,853,997	4.64%
Nicholas John Vetch	2,873,563	3.46%

Funding Agreements

The funding agreements entered into by certain Group companies require the written approval of the bank before any significant change can be made to the nature, constitution, management or ownership of the business.

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 both these schemes are set out in the Directors' Remuneration Report on pages 23 to 26.

Employees

Information on the Company's policies towards its employees, including "whistle blowing", ethical standards, health and safety and employee involvement, is contained in the section on Corporate and Social Responsibility on page 14.

Disclosure to Auditors

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.

Auditors

KPMG Audit Plc will resign at the conclusion of the forthcoming Annual General Meeting, but have indicated their willingness to continue as Auditors to the Company. A resolution proposing the re-appointment of KPMG Audit Plc will be put to the Annual General Meeting.

This report was approved by the directors on 9 January 2009.

William Heaney
Company Secretary

Corporate Governance

Compliance with the Combined Code

The Company has throughout the year complied with the provisions of section 1 of the Combined Code on Corporate Governance ("the Combined Code"). This statement summarises how the principles set out in the Combined Code have been implemented.

Board Effectiveness

The Board, which is responsible for the strategy of the business and its effective control, meets regularly to review the Company's operations and the success of its investment strategy. 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.

Division of Responsibilities

There is a clear division of responsibilities between executive and non-executive directors, with the Chairman's remit clearly separate from that of the joint Chief Executives. Rules are in place to identify those items that should be referred to the Board as a whole. The functions of the Board's committees are set out in terms of reference approved by the Board and each non-executive director's duties and obligations are clearly set out in his letter of appointment.

Balance and Independence

The Board considers that its composition of three independent non-executive directors and three executive directors conforms to the requirement for balance and the need to avoid domination of decision taking. Having considered the relevant criteria, the Board considers that each of its non-executive directors may be regarded as independent for the purposes of the Combined Code.

Board Appointments

The Board's Nomination Committee is responsible for ensuring that all appointments meet the required standards of skills, experience and stewardship ability in accordance with the principles of the Combined Code.

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. Directors must also retire and offer themselves for reappointment, in every third year.

Meetings and Information

The Board and its committees have a regular cycle of meetings to enable effective monitoring of business performance. Of the 12 Board meetings held during the year, five were held to execute transactions agreed in principle at a previous Board meeting. Otherwise, each Board meeting has a formal agenda, with key items reviewed on a regular basis. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive up-to-date and accurate reports and summaries prior to each meeting. The minutes of each committee meeting are circulated to the Board as a whole. Outside the Board meeting cycle, directors receive month-end progress reports and key management information.

Attendance at Board and Committee Meetings During the Year to 30 September 2008

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Cunningham	7	4	1	1
Nicholas Gregory	10	–	–	1
Michael Riley	11	–	–	1
Nicholas Vetch	7	4	1	1
Grahame Whateley	7	–	1	1
Victoria Whitehouse	9	–	–	–
Total number	**12**	**4**	**1**	**1**

Performance Evaluation

The non-executive directors hold meetings outside the cycle of Board meetings in the absence of the executive directors. The non-executive directors, through the Chairman, provide feedback to the executive directors on their 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.

Insurance Cover

The Company has an appropriate insurance policy in place in respect of potential legal action against any of its directors and officers.

Remuneration

The Board took independent advice before setting the level of remuneration for its non-executive directors. The Remuneration Committee also considered advice from independent consultants in deciding on the remuneration and reward schemes applicable to the executive directors and senior managers.

Board Committees: Audit Committee

The Audit Committee's Chairman is Andrew Cunningham and its other member is Nick Vetch, both of whom are independent non-executive directors. The Board considers Mr Cunningham to have the requisite skills to chair the Committee. Their biographical details are set out on page 17. The Committee has formal terms of reference approved by the Board. Committee meetings may be attended, by invitation, by other members of the Board. The Company's Auditors, KPMG Audit Plc, attend all of the Committee's meetings and a member of the Committee also meets the Auditors in the absence of the executive directors and members of the management team. The Committee met four times during the year and each member attended all meetings.

The Audit Committee considers that an internal audit function is not desirable, given the size of the business and relative simplicity of operations.

The Company Secretary acts as secretary to the Committee.

Board Committees: Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Directors' Remuneration Report on pages 23 to 26. The Committee held one meeting during the year at which all members were present.

Board Committees: Nomination Committee

The Nomination Committee comprises at least three directors, the majority of whom are independent non-executive directors. The committee is chaired by the Senior Independent Non-Executive Director, Andrew Cunningham. The Committee met once during the year.

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors are welcome to visit the Company's offices at any time and (by arrangement with tenants) its investment properties.

Accountability and Audit

Going Concern

The diversity of the Group's tenant base and geographic spread of the portfolio owned is shown on pages 2 and 3. The loan facilities available to the Group are described in the Joint Chief Executive's Business Review. The Board's policies for addressing the principal risks to which the business is exposed are described in note 18. Having taken account of these items, the directors consider that the Group is well placed to manage its business risks during the current uncertain economic climate.

After due enquiry the directors have a reasonable expectation that the Company and the Group has sufficient resources to continue operating for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Internal Controls

The directors acknowledge their responsibility for maintaining an appropriate system of internal controls and monitoring its effectiveness. The system 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. Terms of reference are in place covering the responsibilities of the Board's committees. The Board has delegated authority to the executive directors. However, clear statements are in place identifying those matters which the Board has reserved to itself for decision and matters on which the executive directors are expected to consult the Board. The Board thereby retains control over corporate strategy, annual budgets, significant contracts outside the ordinary course of business and corporate acquisitions and disposals. There are prescribed limits to the executive directors' authority to commit the Company to expenditure and borrowing.

The Audit Committee monitors the Company's risk identification and internal control systems, taking into account the findings of the Company's Auditors and insurers. Members of the Committee also provide assistance to the Company's managers on an informal basis, bringing to bear their knowledge and experience of risk management arrangements in other businesses. Given the Company's size and the relative simplicity of its processes, the Committee does not consider the establishment of a separate internal audit function to be appropriate. The Company's approach to these matters, summarised below, is considered to accord with the principles of the "Turnbull Guide" – Internal Controls: Guidance for Directors on the Combined Code. This approach covers all companies within the Group and there are no associate or joint venture entities which it does not cover.

Control Environment and Procedures

The Group's established internal control process comprises:

- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- written remits for executive management identifying items reserved to the Board and its committees;
- a procedures manual covering all operational activity, including limits of authority and authorisation procedures;
- effective systems for authorising capital expenditure and recording actual cost incurred;
- systematic induction process for all joiners and ongoing staff development;
- regular team meetings to identify operational developments and processes to be put in place to deal with them effectively;
- regular progress meetings with the managing agents retained by the Company, including reviews of agents' systems and procedures;
- established procedures for electronic information control and security;
- regular independent audits;
- regular operational and individual performance reviews by executive management;
- monthly 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 ongoing effectiveness of the Company's hedging arrangements; and
- quarterly reporting of health, safety and environmental matters.

KPMG Non-Audit Work

In order to safeguard the objectivity of the Company's Auditors, strict procedures have been put in place for the engagement of KPMG Audit Plc 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.

Whistle Blowing Arrangements

The Company has in place procedures for internal "whistle blowing". These are described under Corporate and Social Responsibility on page 14.

Investor Relations

The directors are aware of the importance of maintaining strong communications links with the Company's investors. The Company maintains a programme of meetings with its shareholders, usually involving the Joint Chief Executive Officers and the directors are happy to arrange additional meetings with investors on request. The Board is provided with reports on these meetings, together with general feedback from investors and the Company's bankers and advisers. The Board provides interim management reports and other announcements in accordance with regulatory requirements and the Company's website is kept up to date with major activities and developments. 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 the results of resolutions.

Directors' Remuneration Report

Remuneration Committee

The Remuneration Committee ("the Committee") 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 Combined Code and the Listing Rules.

The Committee comprises independent non-executive directors. The following directors serve on the Committee:

Nick Vetch (Committee Chairman);
Andrew Cunningham; and
Grahame Whateley.

Biographical details of the members of the Committee are set out on page 17.

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 and none did so during the year. 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 Associates, remuneration consultants. New Bridge Street Associates does not provide any other services to the Group.

Remuneration Policy

The Company's remuneration policy is based on the following principles:

- within a competitive market, retaining and facilitating the recruitment 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.

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

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 cover and critical illness cover.

The Committee approved a salary increase for Vickie Whitehouse of £10,000 per annum during the year in recognition of her performance since her appointment. Otherwise the level of executive directors' base pay, set in May 2007, did not increase during the year.

Directors' Pensions

The Company has established a Stakeholder Pension Plan which all employees, including executive directors, are eligible to join. No executive director is a member of this pension plan at the date of this document.

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

Annual Executive Bonus Plan ("the bonus plan")

The bonus plan provides for incentive payments to the participants to the extent that performance targets set by the Committee are achieved during the financial year. Under the bonus plan 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 will be determined by the Committee, but will not exceed 100% of base salary.

The first performance period for the bonus plan ran from 2 May 2007 (the date of the Company's admission to the Official List of the London Stock Exchange) to 30 September 2008.

For this performance period bonus awards were dependent on the extent by which the Company's total property return exceeded that of the Investment Property Databank Index for Standard Shops during the same period.

The directors believe that the Company's total property return exceeded that of the Investment Property Databank Index for Standard Shops, had the analysis been available to measure the performance for the whole of the bonus period. However, in the current circumstances the directors have decided to waive any bonuses which may have accrued.

From 1 October 2008 onwards the performance period will ordinarily be the Company's financial year end. From 2008-2009 50% of any bonus payable under the bonus plan will depend on the Company's total property return, as described above, with the remaining 50% dependent on the growth in the Company's Dividend Per Share in comparison with the growth in the Consumer Price Index during the performance period.

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. LTIP awards made since the adoption of the scheme in May 2007 reward participants for the achievement of improvements in Total Shareholder Return ("TSR").

50% of the shares comprising an award are subject to the satisfaction of an Absolute TSR target. The remaining 50% of an award are subject to a Comparator TSR target, by which the Company's TSR is compared with a comparator group of publicly quoted real estate investment companies.

Under the Absolute TSR target:

- no award may be exercised in respect of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is less than 8%;
- an award may be exercised as to 20% of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is equal to or greater than 8%;
- an award may be exercised as to 100% of the shares subject to the Absolute TSR target if the average annual percentage growth in the Company's TSR over the performance period is equal to or greater than 16%; and
- where the Company achieves a TSR over the performance period of between 8% and 16%, the award may be exercised on a pro rata basis between 20% and 100% of the shares subject to the Absolute TSR target.

Under the Comparator TSR target:

- no award may be exercised in respect of the shares subject to the Comparator TSR target unless the Company is ranked equal to or above the 50th percentile by reference to its TSR relative to that of the comparator group over the performance period;
- an award may be exercised as to 25% of the shares subject to the Comparator TSR target if the Company is ranked equal to the 50th percentile by reference to its TSR relative to that of the comparator group over the performance period; and
- an award may be exercised as to a further 3% of the shares subject to the Comparator TSR target for each percentile by which the Company is ranked above the 50th percentile, so that the award subject to the Comparator TSR target may be capable of exercise in full if the Company is ranked equal to or above the 75th percentile.

The LTIP is subject to an overriding exercise requirement, under which no award may be exercised unless the Company has complied with the REIT regulations in relation to dividend distribution throughout the performance period. Awards to directors made under the LTIP are set out in the table below. No LTIP awards were made to directors during the year.

Employee 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 have delegated this task.

Terms of Appointment
In accordance with the Company's Articles of Association, all the Company's directors retired at the Annual General Meeting held in February 2008 and were reappointed by that meeting. Directors are subject to retirement at least every three years.

For non-executive directors, the Company's policy is for initial appointments to be for a term of three years, subject to termination on notice by the Company or the director. Letters of appointment are in place in all cases and set out the expected time commitment of the non-executive directors to the Company's affairs.

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 foregone.

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

Directors' Total Emoluments

Director	Salary £	Bonus £	Pension Contributions £	Benefits in Kind £	**Total 2008 £**	Total 2007 £
Non-Executive Directors						
Grahame Whateley	50,000	–	–	–	**50,000**	23,004
Andrew Cunningham	30,000	–	–	–	**30,000**	13,691
Nick Vetch	30,000	–	–	–	**30,000**	13,691
Executive Directors						
Nick Gregory	285,000	–	26,000	5,007	**316,007**	259,226
Mike Riley	285,000	–	26,000	13,901	**324,901**	315,503
Vickie Whitehouse	122,500	–	–	1,240	**123,740**	105,233
Total	802,500	–	52,000	20,148	**874,648**	730,348

Directors' LTIP Awards

Director	Shares Subject to Award at 1 October 2007	Granted During the Year	Exercised During the Year	Lapsed During the Year	**Shares Subject to Award at 30 September 2008**	Market Value Per Share at Award Date	Exercise Dates From	Exercise Dates To
Nick Gregory	298,850	–	–	–	**298,850**	£1.74	3 May 2010	3 May 2017
Mike Riley	298,850	–	–	–	**298,850**	£1.74	3 May 2010	3 May 2017
Vickie Whitehouse	16,522	–	–	–	**16,522**	£1.74	3 May 2010	3 May 2017
Total	614,222	–	–	–	**614,222**			

Directors' Service Contracts

The following tables summarise the directors' service contracts or terms of appointment:

Non-Executive Directors

Director	Date of Appointment as a Director	Date of Current Appointment Letter	Expiry of Term
Grahame Whateley	20 December 2004	30 March 2007	29 March 2009
Andrew Cunningham	30 March 2007	30 March 2007	29 March 2009
Nick Vetch	30 March 2007	30 March 2007	29 March 2009

Executive Directors

Director	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
Vickie Whitehouse	30 March 2007	12 months from either party

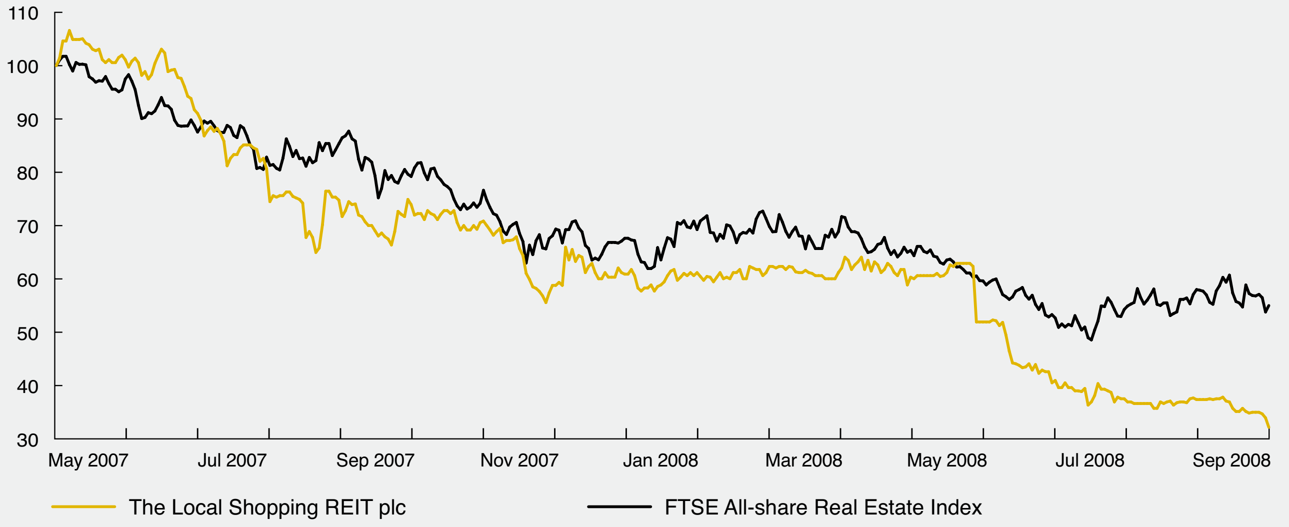
External Appointments

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. However, it is considered that such appointments are not appropriate whilst the Company remains in its early growth stage and it has been agreed that the executive directors will not be entitled to take up any external non-executive appointments until after the elapse of two years from the Company's admission to the Official List of the London Stock Exchange, at which time they will be entitled to take up one non-conflicting appointment. Any further appointments will be subject to approval by the Board.

Performance Graph (Not Audited)

TSR Performance from IPO on 2 May 2007 to 30 September 2008

Source: Datastream



The TSR performance graph above sets out the comparison of the Company's TSR against the Real Estate Sector. This comparison has been chosen as it is considered the most appropriate benchmark against which to assess relative performance of the Company.

This report has been approved by the Board of directors.

Nicholas Vetch
Remuneration Committee Chairman
9 January 2009

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company and of the profit or loss of the parent company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable 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 proper accounting records that 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 1985. 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, Directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

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

active rental market

Our diverse portfolio offers us the opportunity to grow rents from a low and affordable level. Our highly active approach to asset management continues to produce encouraging results, with 89 vacant units re-let at a total combined rent of more than £1m per annum.

Independent Auditors' Report to the Members of Local Shopping REIT plc

We have audited the Group and parent company financial statements (the "financial statements") of The Local Shopping REIT plc for the year ended 30 September 2008 which comprise the Group income statement, the Group and parent company balance sheets, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 Auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 27.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30 September 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 September 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc, Birmingham
Chartered Accountants
Registered Auditor
9 January 2009

2 Cornwall Street
Birmingham
B3 2DL

Consolidated Income Statement for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Gross rental income		**16,691**	13,101
Property operating expenses		**(2,622)**	(1,642)
Net rental income		**14,069**	11,459
Profit on disposal of investment properties		**48**	83
Loss from change in fair value of investment properties	9	**(44,358)**	(6,424)
Administrative expenses	4	**(2,774)**	(2,573)
Net other (expenses)/income	5	**(113)**	25
Operating (loss)/profit before goodwill and net financing costs		**(33,128)**	2,570
Negative goodwill arising on acquisition	3	**–**	2,046
Operating (loss)/profit before net financing costs		**(33,128)**	4,616
Financing income*	6	**540**	786
Financing expenses*	6	**(6,535)**	(10,180)
Movement in fair value of derivatives	6	**(1,347)**	516
Loss before tax		**(40,470)**	(4,262)
Taxation	7	**–**	(3,799)
Loss for the year attributable to equity holders of the Company	15	**(40,470)**	(8,061)
Basic and diluted loss per share	16	**(44.5)p**	(20.0)p

* Excluding movement in the fair value of financial derivatives.

Consolidated Balance Sheet as at 30 September 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	8	**216**	73
Investment properties	9	**203,705**	247,608
Derivative financial instruments	17	**37**	1,034
Total non-current assets		**203,958**	248,715
Current assets			
Derivative financial instruments	17	**203**	553
Trade and other receivables	10	**4,546**	4,829
Investment properties held for sale		**–**	3,081
Cash	11	**7,527**	5,735
Total current assets		**12,276**	14,198
Total assets		**216,234**	262,913
Non-current liabilities			
Interest bearing loans and borrowings	12	**(115,927)**	(98,149)
Finance lease liabilities	14	**(1,356)**	(1,353)
Total non-current liabilities		**(117,283)**	(99,502)
Current liabilities			
Bank overdraft	11	**–**	(115)
Interest bearing loans and borrowings	12	**–**	–
Trade and other payables	13	**(5,613)**	(11,523)
Total current liabilities		**(5,613)**	(11,638)
Total liabilities		**(122,896)**	(111,140)
Net assets		**93,338**	151,773

	Note	2008 £000	2007 £000
Equity			
Issued capital	15	**18,469**	20,098
Reserves	15	**3,773**	3,773
Capital redemption reserve	15	**1,629**	–
Retained earnings	15	**69,467**	127,902
Total attributable to equity holders of the Company		**93,338**	151,773

The financial statements were approved by the Board of directors and authorised for issue on 9 January 2009. They were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

Consolidated Statement of Cash Flows for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Operating activities			
Loss for the year		**(40,470)**	(8,061)
Adjustments for:			
Loss from change in fair value of investment properties		**44,358**	6,424
Net financing costs		**7,342**	8,878
Profit on disposal of investment properties		**(48)**	(83)
Depreciation		**33**	10
Employee share options		**176**	72
Negative goodwill arising on acquisition		**–**	(2,046)
Income tax expense		**–**	3,799
		11,391	8,993
Decrease/(increase) in trade and other receivables		**285**	(1,257)
Decrease in investment properties held for sale		**3,081**	–
(Decrease)/increase in trade and other payables		**(438)**	1,058
Decrease/(increase) in other financial assets		**1,347**	(516)
		15,666	8,278
Interest paid		**(7,503)**	(7,709)
Interest received		**540**	786
Corporation tax paid		**(4,573)**	–
Net cash from operating activities		**4,130**	1,355
Investing activities			
Acquisition of subsidiary, net of cash acquired	3	**–**	(6,700)
Proceeds from sale of investment properties		**13,203**	1,139
Acquisition of investment properties		**(13,606)**	(101,289)
Acquisition of property, plant and equipment		**(176)**	–
Cash flows from investing activities		**(579)**	(106,850)
Financing activities			
Proceeds from the issue of share capital		**–**	155,722
Costs of own shares acquired		**(13,590)**	(2,572)
Repayment of borrowings		**–**	(251,966)
New borrowings		**17,700**	207,023
Dividends paid		**(5,829)**	–
Payment of finance lease liabilities		**75**	108
Cash flows from financing activities		**(1,644)**	108,315
Net increase in cash		**1,907**	2,820
Cash at 1 October 2007		**5,620**	2,800
Cash at 30 September 2008	11	**7,527**	5,620

Consolidated Statement of Recognised Income and Expense for the year ended 30 September 2008

	2008 £000	2007 £000
Net income recognised directly in equity	**–**	–
Loss for the year	**(40,470)**	(8,061)
Total recognised income and expense for the year attributable to equity holders of the Company	**(40,470)**	(8,061)

Notes to the Financial Statements for the year ended 30 September 2008

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 Accounting Standards as adopted by the EU (adopted "IFRS") and in accordance with the provisions of the Companies Act 1985.

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, derivatives and investment properties held for sale.

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 2008. 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.

Business Combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets acquired, liabilities incurred or assumed, equity instruments issued plus the costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities including any intangible assets acquired. If the cost of the acquisition is less than the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired the difference is recognised directly in the income statement.

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 are 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 at its fair 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 basis.

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

Investment Properties Held for Sale

Investment properties held for sale are included in the balance sheet at their fair value.

1 Accounting Policies continued

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.

Property, Plant and Equipment

All 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.

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. Bank overdrafts that are repayable on demand are included within cash and cash equivalents for the purpose of the cash flow statement.

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 re-measured at fair value.

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

Financial Assets

The Group's policy is to impair financial assets 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.

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

1 Accounting Policies continued

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 property management fees which are recognised in the income statement on the basis of work done and insurance commission which is recognised over the term of the premium it relates to.

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 the LTIP scheme are measured using a Monte Carlo simulation model and the awards under the CSOP scheme are measured using a Black Scholes model.

Employee Benefit Trust

The Group operates on 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.

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 accounts. 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.

1 Accounting Policies continued

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 have obtained an external valuation of the portfolio carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institute of Chartered Surveyors in respect of all properties purchased since 1 October 2007 and a further 25% of the portfolio at the half year and year end as selected by the valuers. This valuation has been used by the directors to value the remainder of the portfolio. The assumptions underlying the valuation include future rental income and an appropriate discount rate. 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.

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 JC Rathbone Associates Limited and this valuation has 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 Adopted

IFRS 7 "Financial Instruments Disclosures" is effective for accounting periods beginning on or after 1 January 2007 and has, therefore, been adopted for the first time in these financial statements. The impact of this adoption has been to expand the disclosures made in respect of the Group's financial instruments and its management of capital.

New Standards and Interpretations Not Yet Adopted

There are a number of new standards, amendments to standards and interpretations of standards which are not yet effective for the year ended 30 September 2008 and have not been applied in preparing these consolidated financial statements.

The only endorsed new standard is IFRS 8. IFRS 8 – Operating Segments adopts the "management approach" to segmental reporting which requires the disclosure of segmental information based on internal reports regularly reviewed by the CEO in order to assess each segment's performance. The Group currently operates a single business segment given the wide diversity of the property portfolio held but will reconsider this at the next financial year end.

The following revised standard is not yet endorsed. IAS 23 – Borrowing Costs removes the option to expense borrowing costs and requires the capitalisation of borrowing costs directly attributable to acquisition, construction and production of a qualifying asset as part of the cost of that asset. However, the standard does not have to be applied to qualifying assets measured at fair value. Therefore, upon adoption, the revised standard is not expected to have a material impact on the Group's financial statements.

The following interpretations are not yet effective and are not expected to have a material impact on the Group's financial statements:

- IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 13 – Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14 – IAS 19 – The Limit on a Derived Benefit Asset Minimum Funding Requirement and their Interaction (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 15 – Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008); and
- IFRIC 17 – Distribution of Non-Cash Assets (effective for annual periods beginning on or after 1 July 2009).

2 Segmental Reporting

The Group operates a single business segment providing accommodation to rent across the United Kingdom. The Group's net assets, revenue and profit before tax are attributable to this one activity.

3 Acquisitions of Subsidiaries

In the prior year, on 29 August 2007, the Group acquired the entire share capital of Gilfin Property Holdings Limited for a combination of cash and the issue of new equity. The Company held a portfolio of properties located in Scotland and London.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-Acquisition Carrying Amounts £000	Fair Value Adjustments £000	Values Recognised on Acquisition £000
Property	14,606	–	14,606
Trade and other receivables	91	–	91
Cash and cash equivalents	135	–	135
Trade and other payables	(423)	–	(423)
Loans and borrowings	(1,008)	–	(1,008)
Net identifiable assets and liabilities	13,401	–	13,401
Consideration paid			
Cash paid including costs of acquisition*			(6,835)
Fair value of new equity issued			(4,520)
Negative goodwill arising on acquisition			2,046
Cash acquired			135
Cash consideration			(6,835)
Net cash outflow			(6,700)

* Including costs associated with the acquisition of £330,000 and a further payment of £80,000 following settlement of the completion accounts.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately prior to the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition were their fair values.

The fair value of the assets acquired was in excess of the consideration given of £12.85m as the number of shares issued (3,897,246) was based on the net asset value per share at flotation of £1.6486 (giving £6.425m) compared to £1.16, the price shares were trading at on the day of exchange which gave a fair value of equity issued of £4.52m. This gave rise to the negative goodwill which was taken directly to the income statement. A further cash payment of £80,000 was made following the settlement of the completion accounts. Certain of the properties acquired have been disposed of during the current year.

In the one month following acquisition the subsidiary had contributed a profit before REIT conversion charge of £80,000 and a loss after REIT conversion charge of £210,000. If the acquisition had occurred on 1 October 2006, management estimated that the consolidated revenue for the Group would have been £950,000 higher and the consolidated profit before tax for the year would have been £460,000 higher. In determining these amounts, management assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 October 2006.

4 Administrative Expenses

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

	2008 £000	2007 £000
Auditors' remuneration for audit services:		
Audit of parent company	**30**	35
Auditors' remuneration for non-audit services:		
Statutory audit of subsidiaries	**45**	45
Tax services	**60**	43
Other services supplied	**32**	–
Other services supplied pursuant to such legislation	**–**	190
Services relating to corporate finance transactions	**–**	28

The other services supplied pursuant to such legislation relates to the services provided as reporting accountant during the flotation.

4 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:

	2008	2007
	Number of Employees	
Administration	**17**	12

The aggregate payroll costs of these people were as follows:

	2008 £000	2007 £000
Wages and salaries	**1,297**	1,108
Social security costs	**154**	120
Other pension costs	**53**	22
Equity settled share-based payments	**176**	72
	1,680	1,322

Directors' emoluments are disclosed separately in the Directors' Remuneration Report on pages 23 to 26.

Share Award Schemes

The Company operates two share award schemes for certain employees: a Company Share Option Plan and a Long Term Incentive Plan. Both plans were adopted by the Company with effect from 2 May 2007.

During the year further shares were awarded to employees under the Company Share Option Plan and the Long Term Incentive Plan. Details of the exercise price and the periods in which they may be exercised are given below.

Company Share Option Plan	Exercise Price p	Exercisable Between	2008 Number 000	2007 Number 000
11 January 2008	102.0	12 Jan 2011- 1 Jan 2018	**37**	–
2 May 2007	175.5	3 May 2010- 1 May 2017	**–**	53

	Number of Shares 000	Fair Value £000
At 1 October 2006	–	–
Granted	53	19
Expensed	–	(3)
At 30 September 2007	53	16
Granted	37	6
Expensed	–	(6)
Expired	(28)	(2)
At 30 September 2008	**62**	**14**

The estimated fair value of the share options granted during the year have been calculated using the Black Scholes model. Inputs to the model are summarised below:

	2008	2007
Expected volatility	**25.09%**	23.46%
Risk free interest rate	**4.20%**	5.12%
Expected life of options	**5 years**	5 years
Expected dividend yield	**4.75%**	4.75%
Weighted average share price	**102.0p**	175.5p

4 Administrative Expenses continued

The expected life of the options is based on historical data and the Company's expectations. It is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome. The volatility was calculated according to comparable data of companies with a similar activity.

Long Term Incentive Plan	Exercise Price p	Exercisable Between	**2008 Number 000**	2007 Number 000
11 January 2008	–	12 Jan 2011- 1 Jan 2018	**25**	–
2 May 2007	–	3 May 2010- 1 May 2017	**–**	642

	Number of Shares 000	Fair Value £000
At 1 October 2006	–	–
Granted	642	500
Expensed	–	(69)
At 30 September 2007	642	431
Granted	25	8
Expensed	–	(170)
At 30 September 2008	**667**	**269**

The Monte Carlo model has been used to determine the fair value of the shares awarded under the Long Term Incentive Plan. The assumptions used in the model were as follows:

	2008	2007
Expected volatility	**31.6%**	27.3%
Risk free interest rate	**4.20%**	5.00%
Expected life of options	**3 years**	3 years
Expected dividend yield	**4.75%**	4.75%
Weighted average share price	**102.0p**	175.5p

The scheme and its performance criteria are fully explained in the Directors' Remuneration Report on pages 23 and 24.

The expected volatility rate used is the average of a selection of companies which have a similar profile to the Company, as the Company does not have sufficient trading history to use its own share price. The expected volatility is based on historical share prices of these companies over a period equal to the expected term of the awards. The companies used for these purposes are not members of the comparator group of companies for the total shareholder return performance condition.

No options or share awards were exercised as of the balance sheet date.

The fair value of the options and share awards were appraised by an independent appraisal company.

5 Net Other (Expenses)/Income

	2008 £000	2007 £000
Other income	**41**	151
Other expenses	**(154)**	(126)
	(113)	25

Other income relates to insurance commission received and property management income from Castlemore Ventures Limited, see note 21. Other expenses relate to fees incurred on aborted property purchases and aborted property sales.

6 Net Financing Costs

	2008 £000	2007 £000
Interest receivable	311	786
Gain on sale of derivative financial instruments	229	–
Financing income excluding fair value movements	540	786
Fair value gains on derivative financial instruments (note 17)	–	516
Financing income	540	1,302
Bank loan interest	(6,230)	(7,054)
Other loan interest (note 21)	–	(2,466)
Amortisation of loan arrangement fees	(230)	(552)
Head rents treated as finance leases	(75)	(108)
Financing expenses excluding fair value movements	(6,535)	(10,180)
Fair value losses on derivative financial instruments (note 17)	(1,347)	–
Financing expenses	(7,882)	(10,180)
Net financing costs	(7,342)	(8,878)

7 Taxation

	2008 £000	2007 £000
Current tax		
Corporation tax charged at 29% (2007: 30%)	–	–
REIT conversion charge	–	4,584
Total current tax	–	4,584
Deferred tax charge		
Origination and reversal of temporary differences	–	(785)
Total tax charge in the income statement	–	3,799

Reconciliation of Effective Tax Rate

	2008 £000	2007 £000
Loss before tax	(40,470)	(4,262)
Corporation tax in the UK of 29% (2007: 30%)	(11,736)	(1,279)
Tax relief available from REIT status	(1,875)	(1,006)
Effects of:		
Revaluation deficit and other non-deductible items	13,254	1,773
REIT conversion charge	–	4,584
Deferred tax asset not recognised	357	512
Release of deferred tax following REIT conversion	–	(785)
	–	3,799

From 11 May 2007, the Group elected to join the UK REIT regime. As a result, the Group will be exempt from corporation tax on the profits and gains from its property investment business from this date, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. The directors consider that all the rental income post 11 May 2007 originates from the Group's tax exempt business. Due to the availability of losses, no provision for corporation tax has been made in these accounts.

7 Taxation continued

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.

The deferred tax asset not recognised relates to losses which can be carried forward indefinitely in respect of the residual business. It is not anticipated that these will be utilised in the foreseeable future.

8 Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2006	–	–	–	–
Additions	–	29	54	83
At 30 September 2007	–	29	54	83
Additions	163	6	7	176
At 30 September 2008	**163**	**35**	**61**	**259**
Depreciation				
At 1 October 2006	–	–	–	–
Charge for year	–	2	8	10
At 30 September 2007	–	2	8	10
Charge for year	9	5	19	33
At 30 September 2008	**9**	**7**	**27**	**43**
Net book value				
At 30 September 2008	**154**	**28**	**34**	**216**
At 30 September 2007	–	27	46	73

9 Investment Properties

	Leasehold Investment Properties £000	Freehold Investment Properties £000	Total £000
At 1 October 2006	27,007	114,532	141,539
Additions	18,378	98,252	116,630
Disposals	–	(1,056)	(1,056)
Fair value adjustments	(3,797)	(2,627)	(6,424)
Investment properties held for sale	–	(3,081)	(3,081)
At 30 September 2007	41,588	206,020	247,608
Additions	1,508	12,102	13,610
Disposals	(995)	(12,160)	(13,155)
Fair value adjustments	(31,173)	(13,185)	(44,358)
At 30 September 2008	**10,928**	**192,777**	**203,705**

Investment properties held for sale at the balance sheet date are shown separately as current assets as required by IFRS 5. These assets no longer meet the investment criteria of the Group. Investment properties held for sale at 30 September 2007 were sold after the year end and no properties have been identified which meet the criteria as at 30 September 2008.

The investment properties have all been revalued to their fair value at 30 September 2008.

9 Investment Properties continued

All properties acquired since 1 October 2007, together with a sample selected by the valuers of 25% of the portfolio, at the half year and year end have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institute 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 by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

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

A reconciliation of the portfolio valuation to the total value given in the consolidated balance sheet for investment properties is as follows:

	2008 £000	2007 £000
Portfolio valuation	**202,349**	249,296
Items not revalued	**–**	40
Investment properties held for sale	**–**	(3,081)
Head leases treated as finance leases under IAS 17	**1,356**	1,353
Total per consolidated balance sheet	**203,705**	247,608

10 Trade and Other Receivables

	2008 £000	2007 £000
Trade receivables	**3,638**	4,092
Other receivables	**591**	568
Prepayments	**317**	169
	4,546	4,829

11 Cash

	2008 £000	2007 £000
Bank balances	**7,527**	5,735
Bank overdrafts	**–**	(115)
Cash in the statement of cash flows	**7,527**	5,620

Included in bank balances are amounts held pending the next interest payment due in October 2008. 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 £2,014,000 (2007: £1,348,000) with accruals for interest due of £1,256,000 (2007: £879,000).

12 Interest-Bearing Loans and Borrowings

	2008 £000	2007 £000
Non-current liabilities		
Secured bank loans	**116,929**	99,229
Other loans	**–**	–
Loan arrangement fees	**(1,002)**	(1,080)
	115,927	98,149
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. All loans are repayable in one instalment in 2016.

For more information about the Group's exposure to interest rate risk, see note 18.

13 Trade and Other Payables

	2008 £000	2007 £000
Trade payables	**962**	808
Other taxation and social security	**608**	5,103
Other payables	**959**	2,200
Accruals and deferred income	**3,084**	3,412
	5,613	11,523

14 Leasing

Obligations Under Finance Leases

Finance lease liabilities on head rents are payable as follows:

	Principal £000	Interest £000	Minimum Lease Payment £000
At 1 October 2006	5,550	(4,932)	618
Additions	3,289	(2,554)	735
(Payments)/charge	(108)	108	–
At 30 September 2007	8,731	(7,378)	1,353
Additions	191	(188)	3
Disposals	(13)	13	–
(Payments)/charge	(75)	75	–
At 30 September 2008	**8,834**	**(7,478)**	**1,356**

In the above table, interest represents the difference between the carrying amount (minimum lease payment) and the contractual liability/cash flow (principal).

All leases expire in more than five years.

15 Capital and Reserves

Reconciliation of Movement in Capital and Reserves

	Share Capital £000	Share Premium £000	Reserves £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
At 1 October 2006	800	–	31	–	2,538	3,369
Issue of shares	19,298	137,331	3,742	–	–	160,371
Own shares acquired	–	–	–	–	(3,978)	(3,978)
Cancellation of share premium	–	(137,331)	–	–	137,331	–
Share-based payments	–	–	–	–	72	72
Total recognised income and expense	–	–	–	–	(8,061)	(8,061)
At 30 September 2007	20,098	–	3,773	–	127,902	151,773
Cancellation of shares	(1,629)	–	–	1,629	–	–
Own shares acquired	–	–	–	–	(12,312)	(12,312)
Dividends	–	–	–	–	(5,829)	(5,829)
Share-based payments	–	–	–	–	176	176
Total recognised income and expense	–	–	–	–	(40,470)	(40,470)
At 30 September 2008	**18,469**	**–**	**3,773**	**1,629**	**69,467**	**93,338**

Share Capital

	2008 Ordinary 20p Shares		2007 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	**92,345**	**18,469**	100,493	20,098

During the year the Company cancelled 8,147,920 (2007: Nil) shares and transferred 456,818 (2007: Nil) to the Company's Employee Benefit Trust, LSR Trustee Limited ("EBT"). The number of shares held by the EBT at the year end was 1,098,339 (2007: 641,521).

In the prior year, the shares in issue at 30 September 2006 were divided into 600,000 "A" Ordinary £1 Shares; 100,000 "B" Ordinary £1 Shares and 100,000 "C" Ordinary £1 Shares. Prior to the flotation of the Company on 2 May 2007 the share capital was reorganised by way of subdivision and reclassification of its Ordinary Shares. The "A", "B" and "C" £1 Ordinary Shares were sub-divided into 20p shares, giving each shareholder five shares for each individual share held, and each share reclassified as an Ordinary Share. Following this the authorised share capital was increased to £150,000,000 via the creation of 746,000,000 new Ordinary Shares.

On 2 May 2007, the Company issued 91,954,023 Ordinary Shares at £1.74 per share in an initial public offering (IPO) and all of its Ordinary Shares were admitted to the Official List of the London Stock Exchange. The proceeds received from the IPO amounted to £160,000,000 with net of issuance costs of £4,278,425. On the same day the EBT subscribed for 641,521 shares at their nominal value. In addition on 29 August 2007 the Company issued a further 3,897,246 shares in order to purchase Gilfin Property Holdings Limited.

At 30 September 2008 the Company held 9,234,017 shares in Treasury (2007: 2,953,750).

Share Premium

The share premium arose following the issue and subscription for shares with a nominal value of 20p at £1.74 on 2 May 2007. Subsequently the Company applied to the courts to have the share premium reserve converted to a distributable reserve.

Investment in Own Shares

During the year the Company purchased 14,885,005 shares (2007: 2,953,750), of these 8,147,920 (2007: Nil) were cancelled and 456,818 (2007: Nil) were transferred to the EBT which left 9,234,017 remaining to be held in Treasury at the year end (2007: 2,953,750). A further 30,000 shares held in Treasury were transferred to the EBT during the year.

15 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 1985.

Capital Redemption Reserve

The capital redemption reserve arose on the cancellation of 8,147,920 (2007: Nil) Ordinary 20p Shares.

Dividends

A final dividend of 2.875p per share was paid on 31 December 2008. This dividend of £2.36m has not been provided for in these financial statements in accordance with IAS 10. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non-PID.

On 3 January 2008 a dividend in respect of the year ended 30 September 2007 of £3.18m was paid. This dividend was wholly classified as a non-PID.

On 30 June 2008 an interim dividend in respect of the year ended 30 September 2008 was paid of £2.65m. This dividend was wholly classified as a PID.

Calculation of Net Asset Value Per Share (NAV)

	2008 £000	2007 £000
Net assets	**93,338**	151,773
Mark-to-market adjustment of fixed rate loan (see note 18)	**979**	2,962
Adjusted net assets	**94,317**	154,735

	2008 Number 000	2007 Number 000
Allotted, called up and fully paid shares	**92,345**	100,493
Treasury shares	**(9,234)**	(2,954)
Number of shares	**83,111**	97,539

NAV per share	**112p**	156p
Adjusted NAV per share	**113p**	159p

16 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

	2008 £000	2007 £000
Loss for the year	**(40,470)**	(8,061)

16 Earnings Per Share continued

Weighted Average Number of Ordinary Shares

	2008 Number 000	2007 Number 000
Issued Ordinary Shares at 1 October 2007	**97,539**	800
Effect of subdivision of shares	**–**	1,324
Effect of own shares held	**(6,519)**	(134)
Effect of shares issued	**–**	38,383
Weighted average number of Ordinary Shares at 30 September 2008	**91,020**	40,373

The weighted average number of shares in the prior year has been adjusted for the effect of the subdivision of shares which took place in the prior year in accordance with IAS 33.

Diluted Earnings Per Share

There is no difference between basic and diluted earnings per share as the effect of share options in the year is anti-dilutive.

17 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 consolidated balance sheet as follows:

	Fair Value 2006 £000	Movements in Income Statement £000	Fair Value 2007 £000	Movements in Income Statement £000	Fair Value 2008 £000
Non-current assets	772	262	1,034	**(997)**	**37**
Current assets	369	184	553	**(350)**	**203**
Non-current liabilities	(70)	70	–	**–**	**–**
Fair value	1,071		1,587		**240**
Amount charged to income statement		516		**(1,347)**	

At 30 September 2008 and 30 September 2007 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:

Maturity Date	Amount £000	Rate %	Fair Value 2007 £000	Movements in Income Statement £000	Fair Value 2008 £000
30 April 2016	33,000	5.06 to 5.29	595	(690)	**(95)**
31 January 2017	25,978	5.4476	1,001	(666)	**335**
Swaps in place at 30 September 2008	58,978		1,596	(1,356)	**240**
Disposed of during the year	21,000	5.45 to 5.62	(13)	13	**–**
Amortising swap with a maturity date of 31 January 2017	400	5.4476	4	(4)	**–**
30 September 2007	80,378				
			1,587	(1,347)	**240**

The derivative financial instruments included in the above tables were valued by JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

More details of the Group's policy regarding the management of interest rate risks is given in note 18.

18 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 20 to 22, 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. There were no 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, that 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 does not speculate in financial instruments, it only uses these to limit its exposure to interest rate fluctuations. The Group's policy is to hedge between 60% and 100% of its interest rate exposure. At 30 September 2008, 100% (2007: 100%) of the Group's debt was fixed or protected with further swaps with a notional value of £11,277,745 (2007: £50,378,000) in place to cover future draw downs of the floating rate debt facility.

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 or decrease of 100 basis points (1%) in interest rates. 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.

	2008		2007	
	Impact on income +/- £000	Impact on equity +/- £000	Impact on income +/- £000	Impact on equity +/- £000
Impact on interest income and expense	**355**	**355**	257	257
Impact on fair value of derivatives	**3,644**	**3,644**	4,258	4,258

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 page 3 of the Annual Report. The level of arrears is monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

18 Financial instruments and Risk Management continued

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 2008

	Designated at Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Cash and cash equivalents	–	7,527	–	7,527	7,527
Derivative financial assets	240	–	–	240	240
Trade receivables	–	–	3,638	3,638	3,638
Other receivables	–	–	831	831	831
	240	7,527	4,469	12,236	12,236

30 September 2007

	Designated at Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Cash and cash equivalents	–	5,735	–	5,735	5,735
Derivative financial assets	1,587	–	–	1,587	1,587
Trade receivables	–	–	4,092	4,092	4,092
Other receivables	–	–	503	503	503
	1,587	5,735	4,595	11,917	11,917

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

The ageing of trade receivables are as follows:

		2008			2007	
	Total £000	Impairment £000	After Impairment £000	Total £000	Impairment £000	After Impairment £000
Not yet due	1,264	–	1,264	1,280	–	1,280
Past due by one to 30 days	1,414	(27)	1,387	1,946	–	1,946
Past due by 30-60 days	303	(23)	280	249	–	249
Past due by 60-90 days	66	(28)	38	72	–	72
Past due by 90 days	883	(214)	669	545	–	545
	3,930	(292)	3,638	4,092	–	4,092

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

Other receivables at 30 September 2008 and 30 September 2007 were not past due.

18 Financial instruments and Risk Management continued

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

	2008 £000	2007 £000
Balance at 1 October 2007	–	–
Impairment loss recognised	734	220
Trade receivables written off	(442)	(220)
Balance at 30 September 2008	292	–

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 2008

	Designated at Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	115,927	115,927	114,948
Finance lease liabilities	–	1,356	1,356	1,356
Trade payables	–	962	962	962
Other payables	–	920	920	920
Accruals	–	1,790	1,790	1,790
	–	120,955	120,955	119,976

30 September 2007

	Designated at Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	98,149	98,149	95,187
Finance lease liabilities	–	1,353	1,353	1,353
Bank overdraft	–	115	115	115
Trade payables	–	808	808	808
Other payables	–	2,045	2,045	2,045
Accruals	–	1,259	1,259	1,259
	–	103,729	103,729	100,767

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 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.

18 Financial instruments and Risk Management continued

The Group has undrawn committed borrowing facilities available at 30 September, in respect of which all conditions precedent have been met, as follows:

	2008 £000	2007 £000
Expiring within one year		
Bank loans – revolving credit facility	–	10,000
Expiring after more than five years		
Bank loans – term loan facility	**25,000**	120,000
Bank loans – revolving credit facility	**35,000**	–
	60,000	130,000

On 5 September 2008, the Group entered into a new borrowing facility with an expiry date of October 2016. In respect of the term loan element of this facility, the draw down period expires in September 2009, unless extended by mutual consent.

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

30 September 2008

	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	**115,927**	**171,302**	**6,773**	**6,702**	**6,643**	**6,677**	**6,619**	**137,888**
Finance lease liabilities	**1,356**	**8,834**	**75**	**75**	**75**	**75**	**75**	**8,459**
Trade payables	**962**	**962**	**962**	**–**	**–**	**–**	**–**	**–**
Other payables	**920**	**920**	**920**	**–**	**–**	**–**	**–**	**–**
Accruals	**1,790**	**1,790**	**1,790**	**–**	**–**	**–**	**–**	**–**
	120,955	**183,808**	**10,520**	**6,777**	**6,718**	**6,752**	**6,694**	**146,347**

30 September 2007

	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	98,149	151,651	5,568	5,691	5,718	5,671	5,688	123,315
Finance lease liabilities	1,353	8,731	75	75	75	75	75	8,356
Bank overdraft	115	115	115	–	–	–	–	–
Trade payables	808	808	808	–	–	–	–	–
Other payables	2,045	2,045	2,045	–	–	–	–	–
Accruals	1,259	1,259	1,259	–	–	–	–	–
	103,729	164,609	9,870	5,766	5,793	5,746	5,763	131,671

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.

19 Operating Lease Arrangements

a) As lessee

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

	Land and Buildings		Plant and Equipment	
	2008 £000	2007 £000	2008 £000	2007 £000
Operating leases which expire:				
Two to five years	–	–	35	54
Over five years	888	–	–	–
	888	–	35	54

b) As lessor

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

	2008 £000	2007 £000
Operating leases which expire:		
Within one year	917	1,237
One to two years	1,213	1,711
Two to five years	3,504	2,890
Over five years	10,570	11,425
	16,204	17,263

20 Capital Commitments

At 30 September 2008 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £Nil (2007: £272,000).

21 Related Parties

Identity of Related Parties

The Group has related party relationships with its subsidiaries (see note 22), and with its key management personnel.

Transactions with Key Management Personnel

The only transactions with key management personnel relate to remuneration which is set out in the Directors' Remuneration Report on pages 23 to 26.

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

During the prior year the Group received income of £18,000 from Castlemore Ventures Limited for property management services provided. The company is a 100% subsidiary of Castlemore Holdings Limited, a 75% shareholder until 2 May 2007.

21 Related Parties continued

At the year end the following balances were owed by/(to) the following associated companies and jointly controlled entity by the Company:

	2008 Due in Less Than One Year £000	2008 Due in More Than One Year £000	2007 Due in Less Than One Year £000	2007 Due in More Than One Year £000
Castlemore Securities Limited	**(274)**	**–**	(164)	–
Castlemore Ventures Limited	**54**	**–**	54	–

There are no set repayment dates for these balances.

In the prior year interest was charged by Castlemore Holdings Limited at a rate of 8% and 12.5%. The charge to 30 September 2007 was £2,466,000.

In the prior year interest was charged by the Company to Castle Marinas Limited at a rate of 17.5%, interest received to 30 September 2007 was £282,000.

In the previous year additional income was received from Castlemore Securities Limited of £66,000 in respect of commission it received on insurance premiums incurred in insuring the property portfolio. Following flotation the Group now insures its own properties.

At the time of the flotation a transitional services agreement was entered into with Castlemore Securities Limited ("CSL") whereby CSL would continue to provide certain management services on a transitional basis to the Group. The charge for the year in respect of these services was £180 (2007: £2,680).

22 Group Entities

Control of the Group

There is no ultimate controlling party.

Subsidiaries

	Country of Incorporation	Ownership Interest* 2008	Ownership Interest* 2007
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%
NOS 7 Limited	United Kingdom	**100%**	100%
NOS 8 Limited	United Kingdom	**100%**	100%
Gilfin Property Holdings Limited	United Kingdom	**100%**	100%

* All interests are in Ordinary Shares.

Company Balance Sheet as at 30 September 2008

	Note	2008 £000	2007 £000
Fixed assets			
Property, plant and equipment	C5	**216**	73
Investments	C6	**148,955**	147,455
Current assets			
Debtors	C7	**1,555**	11,063
Cash		**2,219**	–
		152,945	158,591
Creditors: Amounts falling due within one year	C8	**(16,162)**	(2,115)
Net current assets		**136,783**	156,476
Total assets less current liabilities		**–**	–
Creditors: Amounts falling due after one year	C9	**–**	–
Net assets		**136,783**	156,476
Capital and reserves			
Share capital	C10	**18,469**	20,098
Reserves	C11	**3,742**	3,742
Capital redemption reserve	C11	**1,629**	–
Profit and loss account	C11	**112,943**	132,636
Shareholders' funds		**136,783**	156,476

These financial statements were approved by the Board of directors on 9 January 2009 and were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

Notes to the Company Financial Statements for the year ended 30 September 2008

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 cost less provisions due to a diminution in the net realisable value.

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 basis:

- 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 the LTIP scheme are measured using a Monte Carlo simulation model and the awards under the CSOP scheme are measured using a Black Scholes model.

C1 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 Company either purchases own shares directly or it funds the trust to acquire shares in the Company.

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.

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

Profit for the Financial Year

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £1,728,000 (2007: loss £1,133,000).

C2 Remuneration of Directors

The detailed information concerning directors' emoluments, shareholdings and share options is shown in the Remuneration Report on pages 23 to 26.

All directors of the Company are directors of the Group.

C3 Remuneration of Auditors

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

C4 Staff Numbers, Costs and Share Option Schemes

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

C5 Tangible Fixed Assets

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2007	–	29	54	83
Additions	163	6	7	176
At 30 September 2008	**163**	**35**	**61**	**259**
Accumulated depreciation				
At 1 October 2007	–	2	8	10
Charge for year	9	5	19	33
At 30 September 2008	**9**	**7**	**27**	**43**
Net book value				
At 30 September 2008	**154**	**28**	**34**	**216**
At 30 September 2007	–	27	46	73

C6 Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 1 October 2007	147,455	147,455
Additions	1,500	3,000
At 30 September 2008	**148,955**	**150,455**
Provisions		
At 1 October 2007 and 30 September 2008	–	–
Net book value		
At 30 September 2008	**148,955**	**150,455**
At 30 September 2007	147,455	147,455

During the year the Company subscribed for a further 1,499,998 Ordinary £1 Shares in its 100% owned subsidiary, NOS 6 Limited.

During the prior year the Company acquired the entire share capital of Gilfin Property Holdings Limited for a combination of cash and the issue of new equity. The Company holds a portfolio of properties located in Scotland and London.

The consideration paid was as follows:

	£000
Cash paid including costs of acquisition*	6,835
Fair value of new equity issued	4,520
	11,355

* Including costs associated with the acquisition of £330,000.

The consideration agreed for the Company was £12.85m comprising £6.425m of cash (which increased by £80,000 following the settlement of the completion accounts) and £6.425m of equity. The equity element was calculated based on 3,897,246 shares with a value of £1.6486. However, on the day of exchange the shares were trading at £1.16 giving a fair value of the equity consideration of £4.52m. This resulted in a total cost of investment of £11.355m, including costs of acquisition of £330,000.

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	Property trading	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%
NOS 7 Limited	Property investment	100%
NOS 8 Limited	Property investment	100%
Gilfin Property Holdings Limited	Property investment	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

C7 Debtors

	2008 £000	2007 £000
Amounts owed by Group undertakings	**1,417**	11,006
Other debtors	**78**	27
Prepayments	**60**	30
	1,555	11,063

C8 Creditors: Amounts Falling Due Within One Year

	2008 £000	2007 £000
Bank overdrafts	**–**	115
Trade creditors	**77**	229
Amounts owed to Group undertakings	**15,382**	–
Other taxation and social security	**46**	49
Other creditors	**265**	1,347
Accruals	**392**	375
	16,162	2,115

C9 Creditors: Amounts Falling Due After One Year

	2008 £000	2007 £000
Amounts owed to associated undertakings	**–**	–

C10 Called Up Share Capital

	2008 Ordinary 20p Shares		2007 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Authorised	**746,000**	**150,000**	746,000	150,000
Allotted, called up and fully paid	**92,345**	**18,469**	100,493	20,098

	Share Capital £000
At 1 October 2007	20,098
Cancellation of shares	(1,629)
At 30 September 2008	**18,469**

During the year the Company cancelled 8,147,920 (2007: Nil) shares and transferred 456,818 (2007: Nil) to the Company's Employee Benefit Trust, LSR Trustee Limited ("EBT"). The number of shares held by the EBT at the year end was 1,098,339 (2007: 641,521).

In the prior year the shares in issue at 30 September 2006 were divided into 600,000 "A" Ordinary £1 Shares; 100,000 "B" Ordinary £1 Shares and 100,000 "C" Ordinary £1 Shares. Prior to the flotation of the Company on 2 May 2007 the share capital was reorganised by way of subdivision and reclassification of its Ordinary Shares. The "A", "B" and "C" £1 Ordinary Shares were sub-divided into 20p shares, giving each shareholder five shares for each individual share held, and each share reclassified as an Ordinary Share. Following this the authorised share capital was increased to £150,000,000 via the creation of 746,000,000 new Ordinary Shares.

C10 Called Up Share Capital continued

On 2 May 2007, the Company issued 91,954,023 Ordinary Shares at £1.74 per share in an Initial Public Offering ("IPO") and all of its Ordinary Shares were admitted to the Official List of the London Stock Exchange. The proceeds received from the IPO amounted to £160,000,000 with net of issuance costs of £4,278,425. On the same day the EBT subscribed for 641,521 shares at their nominal value. In addition on 29 August 2007 the Company issued a further 3,897,246 shares in order to purchase Gilfin Property Holdings Limited.

At 30 September 2008 the Company held 9,234,017 shares in Treasury (2007: 2,953,750).

C11 Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2007	3,742	–	132,636	136,378
Cancellation of shares	–	1,629	–	1,629
Own shares acquired	–	–	(12,312)	(12,312)
Dividend	–	–	(5,829)	(5,829)
Share-based payments	–	–	176	176
Loss for the financial year	–	–	(1,728)	(1,728)
At 30 September 2008	**3,742**	**1,629**	**112,943**	**118,314**

Investment in Own Shares

During the year the Company purchased 14,885,005 shares (2007: 2,953,750) of these 8,147,920 (2007: Nil) were cancelled and 456,818 (2007: Nil) were transferred to the EBT which left 9,234,017 remaining to be held in Treasury at the year end (2007: 2,953,750).

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 1985.

Capital Redemption Reserve

The capital redemption reserve arose on the cancellation of 8,147,920 (2007: Nil) Ordinary 20p Shares.

Dividends

A final dividend of 2.875p per share was paid on 31 December 2008. This dividend of 2.36m has not been provided for in these financial statements in accordance with FRS 21. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non-PID.

On 3 January 2008 a dividend in respect of the year ended 30 September 2007 of £3.18m was paid. This dividend was wholly classified as a non-PID.

On 30 June 2008 an interim dividend in respect of the year ended 30 September 2008 was paid of £2.65m. This dividend was wholly classified as a PID.

C12 Related Party Transactions

During the prior year the Company received income of £18,000 from Castlemore Ventures Limited for property management services provided. The company is a 100% subsidiary of Castlemore Holdings Limited, a 75% shareholder until 2 May 2007.

In the prior year interest was charged by Castlemore Holdings Limited at a rate of 12.5% and 8%. The charge to 30 September 2007 was £2,466,000.

In the prior year interest was charged by the Company to Castle Marinas Limited at a rate of 17.5%, interest received to 30 September 2007 was £282,000.

At the time of flotation a transitional services agreement was entered into with Castlemore Securities Limited ("CSL") whereby CSL would continue to provide certain management services on a transitional basis to the Group. The charge for the year in respect of these services was £180 (2007: £2,680).

C13 Ultimate Controlling Party

There is no ultimate controlling party.

Glossary of Terms

Adjusted net asset value ("Adjusted NAV") per share
Adjusted NAV is calculated as shareholders' funds, plus the mark-to-market adjustment of the fixed rate loan, 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, 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 is the number of times financial expenses less the head rents treated as finance leases adjustment, is covered by underlying profit before net financing costs, taxation, revaluation adjustments and other income.

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.

Mark-to-market adjustment
Mark-to-market adjustment is an accounting adjustment to change the book value of an asset or liability to its market value.

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.

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

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