MAKING PROPERTY WORK

Annual Report and Accounts
for the year ended 30 September 2011

the **Local Shopping** reit plc

About The Local Shopping REIT plc

The Local Shopping REIT plc (LSR) is the first specialist start-up Real Estate Investment Trust ("REIT") to launch in the UK.

Already a major owner of local retail property, the Company is building a portfolio of local shops in urban and suburban areas, investing in neighbourhood and convenience properties throughout the UK. Typical of the portfolio are shops in local shopping parades and neighbourhood venues for convenience or "top-up" shopping. As at 30 September 2011 the Company's directly owned portfolio comprised 648 properties, with over 2,030 letting units. The Company aims to provide shareholders with an attractive and growing level of income with the potential for capital growth through active management. In addition, the Company intends to deploy its unique set of specialist asset management skills in the management of third party assets and joint ventures, building upon its current mandates with a number of leading institutions.

Financial Highlights

Recurring Profit

£3.24m

+10.4%

(2010: £2.93m)

Dividend per Share

4.0p

+11.1%

(2010: 3.6p)

Adjusted Net Asset Value

£63.1m

-5.5%

(2010: £66.8m)

- Market value of the portfolio broadly flat at £189.2m (2010: £192.9m), a 0.4% like-for-like decrease over the full year
- Recurring profit of £3.2m or 4.0 pence per share (2010: £2.9m or 3.6 pence per share) with an IFRS loss of £0.7m (2010: profit £1.8m)
- Net Asset Value (NAV) of £53.8m or 65 pence per share (2010: £57.6m or 70 pence per share)
- Adjusted NAV of £63.1m or 76 pence per share excluding liabilities arising from derivative financial instruments (2010: £66.8m or 81 pence per share excluding liabilities arising from derivative financial instruments)
- Annual rent roll of £16.2m (2010: £16.4m) with like-for-like rent improving 0.7% (2010: down 1.0%)
- Prudent debt and financial management:
  - Total net debt of £130.6m, reflecting an LTV of 68.5%, with no ongoing loan to value default provisions on the fully drawn facilities and low interest cover tests across all loans
  - £45.6m of undrawn facilities as at 30 September 2011, comprising a term loan, of which £14.5m is undrawn, and a revolving credit facility, of which £31.1m is undrawn. The undrawn term loan was cancelled in October 2011
  - Debt free properties valued at £26.4m
  - No refinancing due until 2016
- Total dividend for the year up 11.1% to 4.0 pence per share (2010: 3.6 pence per share) following the payment of a second dividend for the year of 2.1 pence per share (2010: 1.9 pence per share) to be paid by 31 December 2011 as a non-PID to shareholders on the register on 9 December 2011. The ex dividend date will be 7 December 2011.

Operational Highlights

- Strong lettings progress resulted in a meaningful reduction of voids to 10.6% (2010: 11.3%), of which 2.3% of the total were deliberate:
  - 130 vacant commercial units let at an annual rental income of £1.2m (2010: 107 units let at £983,584 per annum), of which 66 were let in the second half producing £584,150 per annum
  - 205 rent reviews with an average rental uplift of 4.3% (7.5% above Market Rent) increased income by £105,590 per annum
  - 54 lease renewals with an average rental uplift of 3.0% (3.2% above Market Rent) increased rental income by £18,303 per annum
  - Rental deposits increased to approximately £970,000 or 24% of the quarterly rent roll (2010: £940,000)
  - 11 newly constructed flats let, adding a further £70,680 per annum to rent roll
- Six accretive acquisitions secured at an average yield of 7.09%. This reflects the ongoing selective approach to acquisitions. Given the strong tenant covenants, these assets are expected to deliver future growth through fixed rental uplifts and RPI linked rent reviews
- Solid progress made with the Company's strategy of divesting ex-growth properties, with the sale of 17 assets (including one part-sale and four flats) at an average yield of 7.38% and an 8.5% premium to their existing valuation. Four of these were sold during the second half for £0.4m, showing a 12.6% surplus over the 31 March 2011 valuation
- Planning consent secured for 21 flats, three retail units and the sub-division of two properties to provide an additional four smaller retail units. Change-of-use consents to higher value uses obtained on 12 units which will improve their letting prospects
- Construction completed on 14 flats, 11 of which are now leased (see above), with 10 further flats under construction and expected to complete by the end of 2011
- Further progress in leveraging the Company's expertise in managing diverse portfolios of smaller assets to generate fee income from banks and other joint venture partners:
  - 50/50 joint venture workout vehicle established with £10m of equity to invest in properties which require asset management; four properties acquired to date for a total of £3.39m. LSR also receives fee income
  - Joint venture established with Pramerica Real Estate Investors made good but prudent progress, having selectively invested or committed to invest over £22m since November 2010
  - Appointed by a UK bank to asset manage a property in north Scotland

Our Strategy and Business Model

Our aim is to

✓ Optimise value and income from our existing property assets

✓ Use our unique business platform and management skills to grow revenue by:

- sales of ex-growth properties to invest in new opportunities
- acquisition of portfolios and private companies
- creation of further partnership vehicles aligned to our sector
- advising and managing property assets for third parties including distressed situations

✓ In executing our strategy, we seek to leverage our:

- efficient internal management systems and controls
- network of local agents, planning consultants, contractors and other advisers
- technical and asset management skills
- market knowledge and expertise in cost control and identifying development potential
- relationships with the banking sector
- experience in volume transactions

“Britain's biggest grocers expand at an unprecedented rate across the UK, with convenience stores in high streets, local parades of shops or housing developments emerging as key in the battle for space.
Source: Financial Times, 2011

The convenience market is growing and will be worth £42bn by 2015. There are 15,000 convenience stores in the UK and only 15% of that market is major chains.
Source: This is Money, 2011

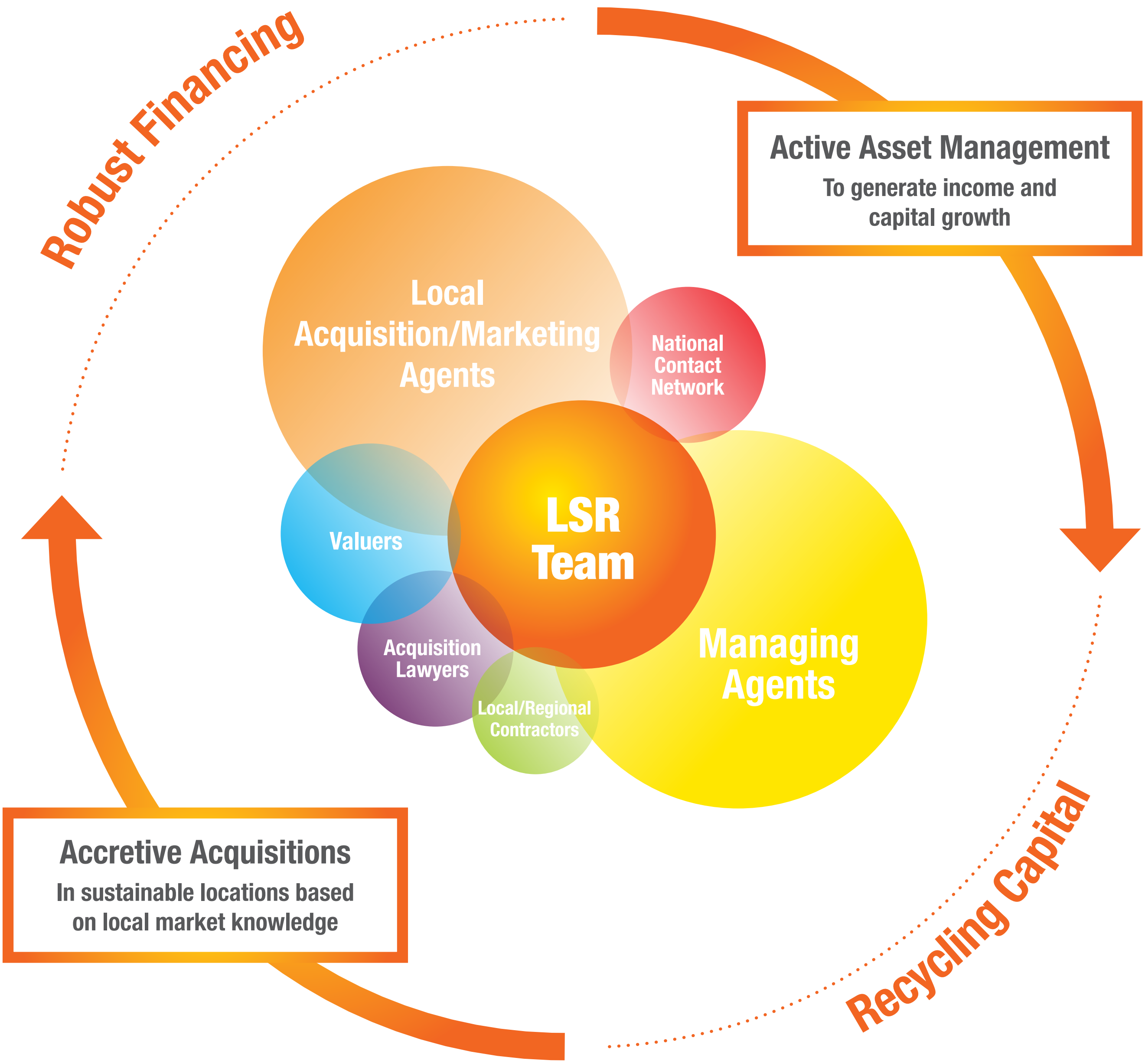
Convenience is one of the fastest growing sectors of the market and developing our offer in this channel is a key part of our growth strategy.
Source: Morrisons

Waitrose said it would open 20 "Little Waitrose" convenience stores in and around London over the next 18 months.
Source: Financial Times, 2011

The sector is becoming more diverse and more competitive and whilst the space might be smaller, the challenges are not.
Source: Retail Gazette, 2011

J Sainsbury, Britain's third-biggest grocer, is opening one to two convenience stores a week, while upmarket chain Waitrose told Reuters last week it expected to beat its target of 300 convenience stores this decade.
Source: Morrisons”

For more information visit our website:
www.localshoppingreit.co.uk



"Our national network of contacts and acquisition agents provide us with a unique insight into local investment markets"

the **Local Shopping** reit plc

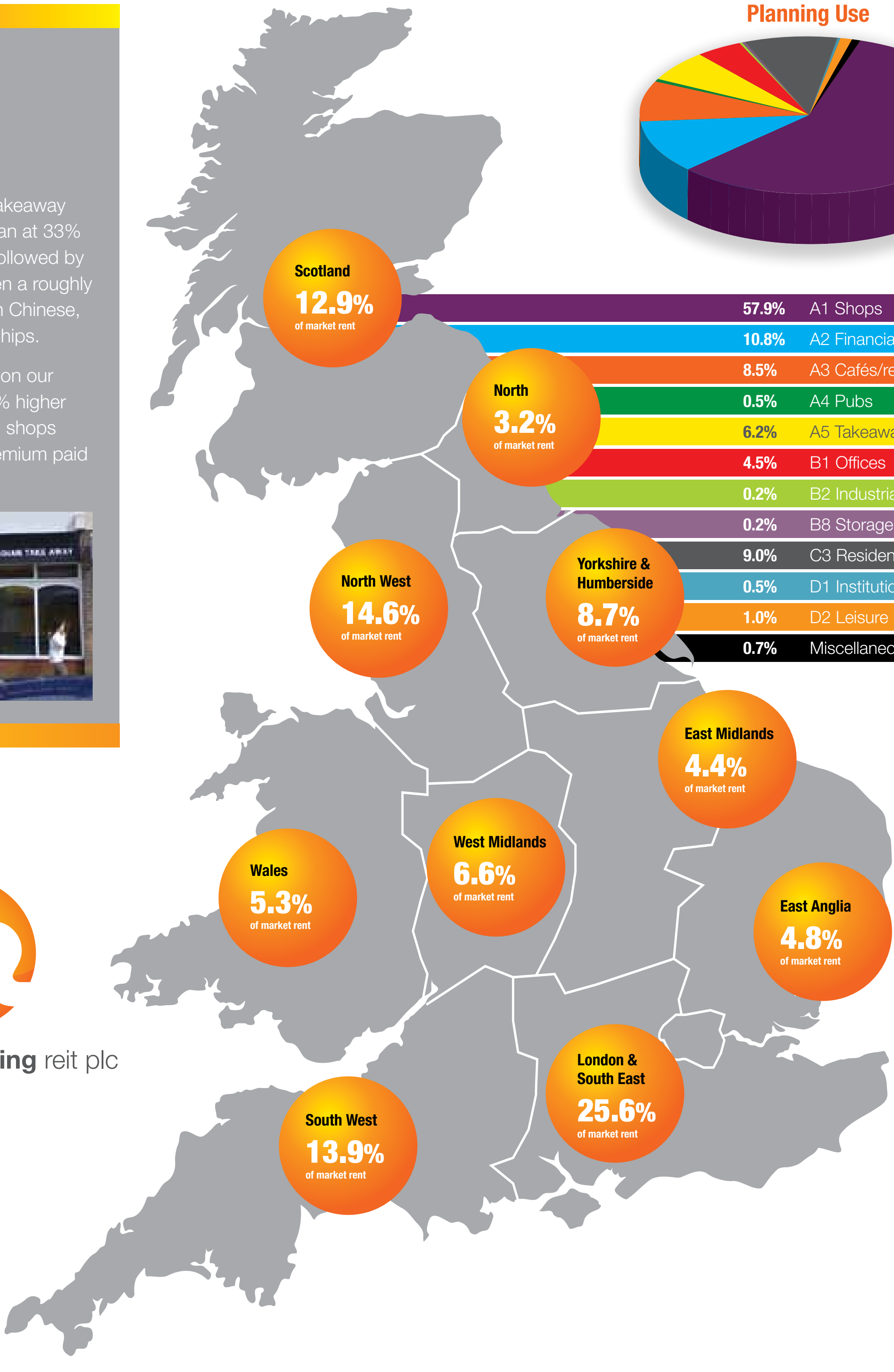
LSR at a Glance

> "The Company has established a reputation for being able to add value to smaller commercial properties located throughout the UK. We are pleased to report that we continue to achieve strong results by applying these skills to our diverse portfolio"

Did You Know?

The most common takeaway in our portfolio is Indian at 33% by number of units, followed by Pizza at 20% and then a roughly even spread between Chinese, Kebabs and Fish & Chips.

The average rent psf on our takeaway units is 15% higher than our standard A1 shops which reflects the premium paid for the A5 use.



Planning Use

57.9%	A1 Shops
10.8%	A2 Financial
8.5%	A3 Cafés/restaurants
0.5%	A4 Pubs
6.2%	A5 Takeaways
4.5%	B1 Offices
0.2%	B2 Industrial
0.2%	B8 Storage
9.0%	C3 Residential
0.5%	D1 Institutional
1.0%	D2 Leisure
0.7%	Miscellaneous

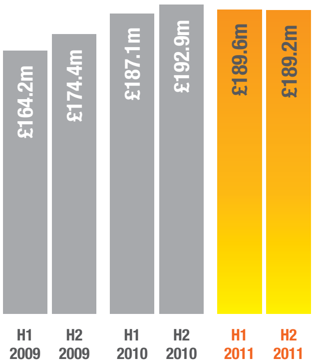
the **Local Shopping** reit plc

Portfolio Value

£189.2m

-2.0%

(2010: £192.9m)

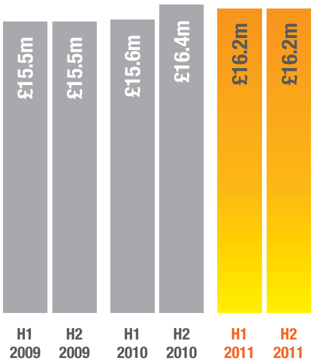


Portfolio rent p.a.

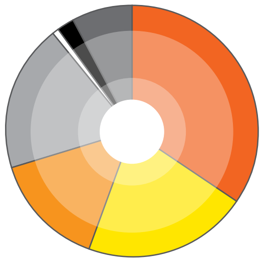
£16.2m

-1.2%

(2010: £16.4m)



Lease Expiry Profile



34.6%	0.3 years
21.2%	3-6 years
14.5%	6-9 years
19.1%	9+ years
0.6%	Vacant (residential)
2.3%	Vacant (deliberate)
7.7%	Vacant (commercial)

Project ↓

Conversion of shop to flat:

Mortlake, London

- Lock-up shop in largely residential area purchased for £150,000.
- Planning secured for conversion to 1 bed flat.
- Conversion costs £35,000 and sale exchanged at £250,000.
- Profit of £65,000 or 35% on cost.

Purchased for
£150,000

Sale exchanged at
£250,000

Increase in Value
35%

Project ↓

Conversion of upper parts:

High Street, Maldon

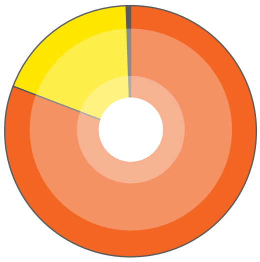
- Grade II listed building with unused upper floors.
- Planning received for two flats.
- Total conversion costs £70,000.
- End value £205,000.

Total conversion costs
£70,000

End value
£205,000

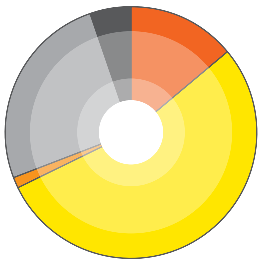
Increase in Value
£135,000

Tenure



81.0%	Freehold/virtual freehold
18.6%	Leasehold
0.4%	Short leasehold <50 years

Tenant Grade



13.9%	Local company
54.1%	Individual
1.4%	Government
25.4%	National multiple
5.2%	Regional multiple

Chairman's Statement

Grahame Whateley Chairman

> During the past year we have made good progress in executing our strategy and, despite the challenging economic environment, the business is performing well.

Portfolio comprises

2,034

letting units, producing rental income of

£16.2m

per annum

I am pleased to announce the Company's full year results for the 12 month period to 30 September 2011.

Introduction

The Company made strong operational progress during the year in executing its strategy of optimising the value of and income from existing assets, and using its business platform and asset management skills to grow revenue.

We continue to work the existing portfolio hard against a challenging economic backdrop. Over the year, our hands-on asset management has generated over £120,000 per annum of additional income through successful rent reviews and lease renewals. Converting unused space above a number of our shops into 14 flats has added a further £70,000 to the annual rent roll and, over the year, we have secured planning consent for a further 21 such conversions. Our flexible leasing policy, supported by our extensive network of local agents, has resulted in a significant reduction in the void rate, from 11.3% in September 2010 to 10.6% as at 30 September 2011. As a result of these initiatives, like-for-like rents grew by 0.7% over the period.

Our national network of contacts and acquisition agents provide us with a unique insight into local investment markets. During the year, these partnerships helped us make six accretive acquisitions at an average yield of 7.09% which, given the strong tenant covenants, should deliver future growth through fixed rental uplifts and RPI linked rent reviews. At the same time, in a difficult market, we have sold 17 ex-growth properties (including one part-sale and four flats) at an average yield of 7.38% and an 8.5% premium to their existing valuation. Our success in implementing asset management initiatives has helped us to maintain the value of the portfolio which on a like-for-like basis remained broadly flat (down 0.4%) over the year.

During the year, we also made good progress with the second element of our strategy: exploiting our business platform and asset management skills to enable us to offer our skills to third parties and thereby grow future revenue. Our specialist asset management skills provide us with a unique capability to manage smaller lot sized properties throughout the UK. We see a strong business opportunity for LSR to use these skills to help property owners or administrators manage portfolios of smaller assets, where they may not possess the relevant expertise in-house. I am pleased to report that during the year we were appointed by a third UK lender, in this instance specifically to asset manage a property in the north of Scotland, clearly demonstrating our extensive national coverage. While the management fees payable on these projects for three lenders are currently relatively minor, we hope to build on this progress and our strong relationships with UK lenders over the coming year to generate further income for the business.

One such strong relationship led to the conclusion of a 50/50 joint venture partnership with an established UK financial institution, as announced on 28 September 2011. The joint venture was created as a workout vehicle to invest in commercial investment properties across the UK, primarily local shopping assets, that will benefit from the specialist management approach applied by LSR's highly experienced team. Each JV partner will commit up to £5m of equity. The initial drawdown of £710,000 from each was used to acquire a portfolio of four properties for £3.39m. The JV intends to hold the properties as investment assets and grow this initial portfolio as LSR applies its specialist management skills to maximise value and income. The Company will receive management fees and incentive fees based on specific agreed performance hurdles.

Earlier in the year, as announced on 29 November 2010, we entered into a joint venture agreement with Pramerica Real Estate Investors ("Pramerica") to form Local Parade Investments LLP ("LPI"). Including gearing, LPI will have *circa* £100m to invest in neighbourhood retail parades and centres throughout the UK. With Pramerica committing to provide 80% of the equity (£30m) and LSR providing the remaining 20% (£7.5m), the JV is structured so that LSR and Pramerica act as co-investors. LSR also acts as asset manager and will be responsible for sourcing investments, for which it receives related fees. Our partnership with Pramerica provides a strong endorsement of our asset management capabilities and the opportunities that can be found in the local shopping market. We have already built up a strong working relationship with Pramerica's team and to date have selectively invested or committed to invest over £22m into the sector.

Dividend

As a result of the successful implementation of our strategy I can report a recurring profit for the year of 4.0 pence per share (2010: 3.6 pence per share). This result was achieved despite a rise in certain property operating costs, including the amount of empty rates payable over the period and certain costs included in administrative expenses such as the rise in the undrawn commitment fee on the loan facility. This demonstrates the real value of our active asset management of the portfolio and our new business initiatives.

I am pleased to announce a dividend for the second half of the year of 2.1 pence per share (2010: 1.9 pence per share), which is in line with our policy to pay out 100% of recurring profits earned over the year. This has been a strong year from an earnings perspective. The underlying market may well prove more challenging next year but we remain committed to a progressive dividend policy.

The dividend will be paid by 31 December 2011, as a non-PID to shareholders on the register on 9 December 2011. This will take the total dividend paid for the year to 4.0 pence per share, an 11.1% increase on the dividend paid in the previous year (2010: 3.6 pence per share).

Outlook

During the past year we have made good progress in executing our strategy and, despite the challenging economic environment, the business is performing well. Our active asset management of the portfolio has resulted in a falling void rate, growing rents and a stable valuation. Our financing is long term, with our facilities expiring in 2016, and our two fully drawn loans have no loan-to-value covenants.

With this solid platform we are now focused on growing our business. We continue to believe that the next few years will provide opportunities to generate substantial returns for our shareholders from investing in distressed situations. Since the last year end we have taken significant steps towards achieving our strategic goals. The establishment of two strong joint ventures with major financial institutions provides us with the financial firepower to invest in distressed situations as well as the opportunity to earn fees. During the coming year, we seek to grow our investment in these two ventures as well as progress other initiatives that will enhance our ability to deliver steadily improving earnings and enhanced shareholder value.

Grahame Whateley
Chairman
1 December 2011

Project ↓

Parade of 6 shops:

Deysbrook, Liverpool

- Parade of six shops purchased May 2011 for Local Parade Investments LLP.
- Back to back surrender and reletting of Unit 2 from local hairdresser to Barnardos at £14,500 pa versus former rent of £10,950 pa.
- Strong reversionary evidence created to justify c.25-30% increase in outstanding and forthcoming rent reviews.

Rent before Rent Review
£10,950

Rent after Rent Review
£14,500

Increase in Rental Value
25–30%

> "Since the last year end we have taken significant steps towards achieving our strategic goals. The establishment of two strong joint ventures with major financial institutions provides us with the financial firepower to invest in distressed situations as well as the opportunity to earn fees."

Directors' Report

The directors of The Local Shopping REIT plc ("the Company") present their report and the audited financial statements of the Company together with its subsidiary and associated undertakings ("the Group") for the year ended 30 September 2011. The Directors' Report comprises the information set out on pages 8 to 33.

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

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

The directors are responsible for preparing their annual report and the Group and Company financial statements in accordance with applicable law and regulations. Company law requires that the directors prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of their profit or loss for the relevant period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a directors' remuneration report and a corporate governance statement, each of which conforms to the relevant law and regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Independent Auditors' Report is set out on pages 34 and 35. So far as the directors are aware, there is no information relevant to the Auditors' preparation of their report that has not been disclosed to the Company's Auditors. Each director has taken all steps required of a director to ensure that he/she is aware of any information relevant to the audit and to establish that all such information has been disclosed to the Auditors.

The directors consider that the sections headed Business Review, Finance Review, Governance and the Remuneration Report together fulfil the requirement for an enhanced Business Review under s.417 Companies Act 2006. The Governance section is a statement for the purposes of Disclosure and Transparency Rule 7.2.1.

Principal activities

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

Investment Policy

The Company's investment objective is to provide our shareholders with an attractive and growing level of income, with additional capital growth through active asset management. We also look to enhance shareholder returns by combining our asset management skills with the complementary interests and resources of joint venture partners.

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 we avoid concentration of risk in a particular retail sector. Our intention is to maintain a high level of diversification. We believe in sustaining the local trading community nationwide and dealing with all our stakeholders in a fair and open manner. The Company currently has the power under its Articles to borrow up to an amount equal to 75% of gross assets at the time of drawdown. We believe that this investment model is resilient and will continue to generate returns for shareholders over the longer term.

Business Review

In the review below, as well as providing an overview of the business activities over the last 12 months, we also make comment, where appropriate, on the progress made since the portfolio was last valued on 31 March 2011.

Results and Net Asset Value

During the year, the Company achieved a £0.3m increase in recurring profit to £3.2m (4.0 pence per share), up from £2.9m (3.6 pence per share) in 2010. This has been achieved as a result of an increase in portfolio rent following the purchases completed in 2010 which has offset an increase in property operating expenses arising primarily from the removal of empty rates relief from April 2011. The recurring result contributed by the joint ventures is de minimus for the 12 month period given the relatively short period of time assets have been owned. The detailed calculation of recurring profit is given in the Finance Director's Review below.

In addition the Group has earned £0.1m in one-off acquisition fees from the joint ventures. The first year set up costs incurred on these vehicles has resulted in only a minimal profit being recorded, but we expect greater profits to be generated in the coming year.

The net asset value of the Group has fallen over the 12 month period by £3.8m. This is a result of the decline in the value of the portfolio, together with an increase in investment in a number of deliberately vacant properties and other value-add opportunities in order to protect and enhance future values. In addition, there has been a small increase in the liability arising from the interest rate swaps in the period (£0.1m). Therefore, the consequential fall in NAV per share is 5 pence, down to 65 pence per share compared to 70 pence at 30 September 2010. The adjusted net asset value per share (adjusted for the fair value of the swap agreements) has fallen to 76 pence per share compared to 81 pence in 2010.

Portfolio Performance

Our directly owned portfolio was revalued at the year end at £189.2m, reflecting an equivalent yield (excluding residential element) of 8.83%. It now comprises 648 properties, with 2,034 letting units, and produces annual rental income of £16.2m.

Combined Portfolio

Value	£189.2m
Initial Yield	8.16%
Reversionary Yield	8.77%
Equivalent Yield*	8.83%
Rent pa	£16.2m
Market Rent p.a.	£17.5m

Value Range	No. of Properties	Value £m	Equivalent Yield*
£0 – £100k	147	11.0	9.35%
£101k – £200k	245	36.5	8.96%
£201k – £500k	154	49.9	8.84%
£501k – £1m	76	50.7	8.75%
£1m – £3m	24	34.8	8.74%
£3m +	2	6.3	8.38%
Total	648	189.2	8.83%

* Excluding residential element.

The table above illustrates the range of property values throughout the portfolio. The average property value is £292,000 and the median is £170,000. The residential element of the portfolio has been valued at £18.3m, based on 85% of vacant possession value. The average value of the residential units in our portfolio remains low, at just below £58,000.

Mike Riley Joint CEO

Nick Gregory Joint CEO

"We remain confident that the wide geographic spread and diversity of our asset and tenant base, with its focus on supporting the top-up shopping needs of local communities, will continue to underpin our strong, cash generative business model."

Business Review continued

> A key element of our strategy for growth is the management of distressed assets and, during the year, we were appointed to manage property on behalf of a third UK lending institution.

Like-for-like portfolio – adjusted for part sales

	30 September 2011	30 September 2010	Change
Value	**£187.3m**	£188.0m	-0.36%
Initial Yield	**8.17%**	8.03%	+14 bp
Reversionary Yield	**8.78%**	8.74%	+4 bp
Equivalent Yield*	**8.85%**	8.89%	-4 bp
Rent per annum	**£16.1m**	£16.0m	+0.65%
Market Rent per annum	**£17.3m**	£17.4m	-0.64%

* Excluding residential element.

Over the year as a whole, the portfolio market rent has held up well, falling only 0.6% compared with a fall of 2.3% during the previous financial year. More encouragingly, as a result of our asset management successes, like-for-like rent grew during the year by 0.7% compared with a fall of 1.0% in the year to 30 September 2010.

Our success in implementing asset management initiatives and growing rental income has helped us to maintain the value of the portfolio which, on a like-for-like basis, fell only slightly (down just 0.4%) over the year, with the equivalent yield (excluding the residential element) moving out only four basis points to 8.85%.

Investment Market

Values within the local shopping sub-sector have remained relatively stable over the year. Private investors, faced with low interest rates, continue to invest in smaller lot sized properties in order to satisfy their requirement for income. Interestingly, our conversations with the leading auction houses suggest many of the investors purchasing smaller retail properties are new entrants to the sector. We believe that low interest rates are supportive of current valuation levels but, with bank debt remaining scarce and expensive, any near term yield compression in our sector seems unlikely. The prevailing low interest rate environment has also encouraged owner-occupiers to consider purchasing rather than renting. We have seen the impact of this within our own portfolio, with the sale of a number of vacant units at firm prices and increased interest from our existing tenants in acquiring their own premises.

The banking sector needs to carry out substantial de-leveraging over the next few years. Many investors had anticipated that this would result in a reasonable increase in supply from sales of smaller assets where a borrower was in default. However, we have not yet seen stock or market liquidity increase to the extent that had been predicted. In addition, the inability of banks to make appropriate write-downs has often led to a mismatch between the pricing expectations of buyers and sellers.

Acquisitions and Sales

Throughout the year we maintained our highly selective approach to making acquisitions, concentrating on securing attractively priced properties with sustainable rents and the potential for growth through fixed or inflation linked rent reviews or active asset management. During the year, we purchased six properties for our wholly owned portfolio for a total consideration of £1.8m, at a blended yield of 7.09%. Of these, just one has been acquired since 31 March 2011 for £0.2m. Five of the six acquisitions were convenience store investments let to Tesco, Co-op and Martin McColl, with four of them leased on long leases, offering good growth potential through fixed or RPI linked rent reviews.

In line with our stated strategy, we continued to make solid progress in selling ex-growth properties. During the year, we sold 17 properties, including one part disposal and four flats, for £3.6m at an average yield of 7.38%. These sales were at an 8.5% premium to valuation. Four of these were sold during the second half of the year for £0.4m showing a 12.6% surplus over the 31 March 2011 valuation. We also exchanged contracts (subject to planning) to sell a property yielding 6.98% in Rutherglen for £0.5m, 11.1% above valuation. In addition, a property in Stanwell was transferred during the first half into the joint venture with Pramerica Real Estate Investors at its £1.62m valuation.

Since the year end, we have completed the sale of a property in Taunton for £0.2m, 10.0% above its September 2011 valuation. Over the coming year we intend to sell further ex-growth properties in order to reinvest the proceeds into our joint ventures and other interesting opportunities.

Occupier Market

Within the occupier market, conditions remain challenging. The year has been characterised by weak domestic growth, inflation remaining persistently above the Bank of England's target and ongoing substantial cuts to public spending. More recently, increasing instability within the Eurozone can be added to the mix. The resulting squeeze on disposable income and the knock-on adverse impact on consumer confidence is putting severe pressure on many traditional high street retailers, whose business models rely on discretionary spend. Such retailers are faced with ever-growing competition from the Internet, out-of-town developments and the larger regional centres, and we anticipate further High Street store closures and tenant failures over the coming months. By contrast, tenant demand for smaller local shopping assets from both national operators (particularly supermarkets for their convenience store formats) and independent traders remains resilient, as evidenced by the 23% increase in the value of the new lettings we achieved during the year. We remain confident that the wide geographic spread and diversity of our asset and tenant base, with its focus on supporting the top-up shopping needs of local communities, will continue to underpin our strong, cash generative business model. Furthermore, we believe that our rents remain affordable, which is demonstrated by our continuing success in letting vacant units. Our average shop rent is only £11.14 per sq ft, or £12,031 per annum (£231 per week).

Despite the weak economic backdrop our flexible leasing policy, supported by our extensive network of local letting agents and hard work from our asset managers, resulted in a meaningful reduction in the void rate over the year, from 11.3% in September 2010 to 10.6% as at 30 September 2011.

Key Performance Indicator – Void Rate

	30 September 2011	31 July 2011	31 March 2011	31 January 2011	30 September 2010
Vacant — Commercial	**7.7%**	7.8%	7.8%	8.0%	8.0%
Vacant — Deliberate	**2.3%**	2.5%	2.4%	2.4%	2.5%
Vacant — Residential	**0.6%**	0.5%	0.9%	0.9%	0.8%
Total	**10.6%**	10.8%	11.1%	11.3%	11.3%

Our success in letting vacant commercial units while keeping on top of tenant turnover has seen the commercial void rate fall from 8.0% as at 30 September 2010 to 7.7% as at 30 September 2011. The level of deliberate voids, where we are looking to change use or reconfigure units, also fell as we completed a number of flat conversions and refurbishments towards the end of the year. As we continue to improve the quality of our residential stock, we are pleased to note the residential void rate fell by 20 basis points during the period under review.

Given the nature of our tenants, 68% of whom are independent traders, and the challenging trading conditions they are facing, bad debts are inevitable. However, we are pleased to report that our continuing strong focus throughout the year on credit control resulted in our bad debt write-offs falling by 12.2% to £806,632, compared with £918,452 in the previous financial year. We continue to take a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let them and improve the quality of our cash flow. However, we also recognise that there may be occasions

> "Our continuing strong focus on credit control resulted in our bad debt write-offs falling by 12.2%"

Business Review continued

74 days:
the average
rent free
period on new lettings of our commercial units

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, where the local letting market is challenging. Similarly, we adopt a pragmatic approach to letting our more difficult vacant units in order to mitigate any increase in voids and associated costs.

When we let units to independent tenants or deal with assignments and sub-lettings, it is our policy to seek rent deposits of between three to six months. Over the year we increased the number and value of deposits held and, at 30 September 2011, this totalled approximately £970,000 (30 September 2010: approximately £940,000) or 24% of our quarterly rent roll. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

Asset Management

Faced with a challenging and unsettled economic backdrop, we recognise the importance of working our existing assets hard. LSR has established a reputation for being able to add value to smaller commercial properties located throughout the UK and we are pleased to report that we continue to achieve strong results by applying these skills to our diverse portfolio.

Despite difficult trading conditions, demand for local shops remains resilient. During the year to 30 September 2011, the Company let 130 vacant commercial units at a total rent of £1,210,240 per annum (compared to 107 units let at £983,584 per annum during the previous year). Sixty-six of these units were let during the second half of the year at a total rent of £584,150 per annum. Over the full year the units were let, on average, at just 0.9% below Market Rent. However, 32 of these new lettings incorporated stepped rent increases, which we have ignored in our comparison. These 32 lettings were secured at an initial rent of £308,400 per annum rising to £364,750 per annum over the first three years of their leases, compared with a Market Rent of £348,020 per annum. The remaining 98 units were let at a 3.3% premium to Market Rent. With our focus on maximising cash flow, we prefer to deal with letting incentives by way of these stepped rents, rather than by granting protracted rent free periods. Our average rent free period on lettings completed during the year was just 74 days. The letting pipeline also remains healthy with 27 units under offer as at 30 September 2011, at a combined rental of £318,180 per annum.

Current market conditions make it difficult to grow rents at rent review and lease renewal. However, over the year, rent reviews on 205 units increased rental income by a total of £105,590 per annum, reflecting an average uplift of 4.3%, and 7.5% above Market Rent. Lease renewals on 54 units added a further £18,303 of rental income per annum (an average uplift of 3.0%, and 3.2% above Market Rent) and two lease extensions on flats in Harrow and Worcester secured £10,415 in premiums from the tenants.

In line with our drive to deliver value from under-used and poorly configured properties, we secured planning consent for 21 flats and three retail units, as well as for the sub-division of properties in Birkenhead and Bolton to provide an additional four smaller retail units. In addition, we obtained 12 change of use consents from class A1 (shops) and class D1 (Institutional) to higher value uses which will improve their letting prospects.

During the year we completed the construction of 14 flats over seven separate projects, redeveloping the redundant space above shop units where we had previously secured the necessary planning consents. Eleven of these flats were subsequently let at a combined rent of £70,680 per annum, while three of the flats have been held back for sale. We intend to continue to build out similar projects where we can achieve an acceptable rental yield following conversion. A further ten flats are under construction with completion due towards the end of December 2011.

In addition, we purchased the freehold interests in two properties where we previously owned long leasehold interests and extended the lease of a property in Hastings with a sub-50 year leasehold interest (in exchange for an improved ground rent) which resulted in a 4.6% valuation gain. We also acquired an option to purchase land adjacent to a small supermarket we own in St Helens, where we are working up a planning application to extend the unit in conjunction with the tenant.

Working with Banks

A key element of our strategy for growth is the management of distressed assets. At the beginning of the period we were managing properties for two UK banks. During the year we were appointed by a third UK lender to asset manage a property in the north of Scotland, demonstrating our extensive national coverage. This brought the annual rent roll of properties under management to just under £900,000. Our remuneration for these projects is typically an asset management fee based on a percentage of the rental income with, in some cases, a profit share payable on ultimate disposal. The management fees payable on these three projects are currently relatively minor. However, discussions continue with a number of other lenders who recognise the value of our business model, encompassing nationwide coverage, an extensive network of local agents and our intensive and specialist asset management skills. We hope to build on this progress during the coming year to generate additional income for the business.

Joint Ventures

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

During the period, and as announced on 29 November 2010, we entered into a joint venture agreement with Pramerica Real Estate Investors Limited ("Pramerica") to invest in neighbourhood retail parades and centres throughout the UK. It is intended that the joint venture will comprise over £37m in equity which, with gearing, will provide a total of around £100m to invest. With Pramerica committing to provide 80% of the equity (£30m) and LSR providing the remaining 20% (£7.5m), the joint venture is structured so that LSR and Pramerica act as co-investors. LSR also acts as asset manager, for which it receives fees, and is responsible for sourcing the investments. Debt finance is being provided by HSBC.

Since establishing the joint venture, we have reviewed over 350 opportunities with a combined asking price of over £850m, which we are typically sourcing off-market using our UK-wide network of retained agents. We are taking a highly selective approach in our buying, but have to date purchased or committed to purchase 13 properties with a combined purchase price of £22.3m, of which 10 had been acquired as at 30 September 2011 for a combined £11.7 million. Of these, nine were valued at the year end by our independent valuer, Allsop. We are pleased to report that, as a result of our highly selective approach to making acquisitions and the subsequent successful implementation of a number of asset management initiatives, the valuation of these properties showed an 8.0% increase above their purchase price. The properties acquired are a mix of newly developed and established parades and neighbourhood centres. The largest of these acquisitions was the forward funding of the 50,000 sq ft Halewood District Centre in Liverpool for £7.2m which is due for completion in September 2012. In order to finance these acquisitions, as at 30 September 2011 £7.1m had been drawn down from the HSBC facility, of which £2m has been hedged, resulting in an overall interest rate of 3.3%.

More recently, and as announced on 28 September 2011, we entered into a 50/50 joint venture partnership with an established UK financial institution. The joint venture ("JV") has been created as a workout vehicle to invest in commercial investment properties across the UK, primarily comprising local shopping assets that will benefit from LSR's specialist asset management. Each partner will commit up to £5m of equity which may be geared as appropriate, with debt being provided by the financial institution. The initial drawdown of £710,000 each was used to acquire a portfolio of four properties for £3.39m at a 7.8% yield. This initial portfolio consists of three convenience stores let on long leases to Co-op and a tyre centre let to NTS. The JV intends to hold the properties as investment assets and grow this initial portfolio as LSR applies its specialist management skills to maximise value and income. The Company will receive acquisition fees, management fees and incentive fees based on specific agreed performance hurdles.

Business Outlook

While we believe that values in our sub-sector are supported by the current low level of interest rates, debt finance remains both scarce and expensive and equity investors only have a finite amount of money, making further near term yield compression unlikely. Future growth in the value of our existing portfolio will therefore depend on our ability to grow rents, building upon our success over the past year in achieving rental uplifts of nearly £120,000 per annum from rent reviews and lease renewals, and from creating additional value by applying our active asset management skills. During the coming year we will continue to sell ex-growth properties and look to reinvest the proceeds into our newly established joint ventures and other interesting opportunities.

> "We will also seek to further leverage our unique skill set and grow the business through the creation of additional joint ventures"

Business Review continued

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

Market conditions during the period under review have continued to be challenging. A backdrop of weak domestic growth, inflation above target, substantial cuts to public spending and increasing instability within the Eurozone is having a major bearing on occupier markets. While our diverse tenant base of largely independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend and everyday items, we are mindful that downside economic risks persist. However, our highly active approach to managing the portfolio has, over the year, resulted in a falling void rate, growing rents and a stable valuation. In addition, our financing is long term, with our facilities expiring in 2016, and our two fully drawn loans have no loan-to-value covenants. We aim to continue to grow portfolio income, building upon the 0.7% increase in like-for-like rents achieved since 30 September 2010 as a result of successful rent reviews, lease renewals and a reduction in the void rate.

The banking sector needs to carry out a substantial de-leveraging over the next few years. Previous market expectations were that this would provide a reasonable increase in supply from sales of smaller assets where a borrower was in default. In practice we have not seen the increase in stock that had been predicted. It had also been expected that banks, constrained by their ability to make further loan write-downs, would look for longer term asset management led solutions to the distressed properties and portfolios on their books. To some extent this is happening and we are pleased to be acting as an asset manager for three UK lenders, where we are seeking to add value to a number of distressed property situations. More recently, however, it has become clear that increasingly stringent capital requirements are steering the banks towards sales of loan books and larger portfolios in addition to individual asset sales. As a business we are looking to ensure that we have the tools in place to allow us to unlock all these opportunities.

We believe distressed investment situations will provide LSR, whether acting as manager or investor, with the potential to generate attractive returns for our shareholders over the coming years. Our nationwide coverage, extensive network of local agents and specialist asset management skills have already been recognised by three lenders who have appointed us to manage distressed situations on their behalf. Our cash, £26.4m of uncharged properties and undrawn loan facilities, together with our two joint ventures formed during the year, give us the flexibility and firepower to take advantage of any accretive buying opportunities that emerge when lenders decide to sell.

Our future success will therefore be based upon the continuing effective execution of our strategy:

- optimising the value of and income from existing assets
- using our unique business platform and management skills to grow revenue, which will be achieved by:
    - sales of ex-growth properties to invest in new opportunities;
    - portfolio or corporate acquisitions;
    - the creation of further partnership vehicles aligned to our sector; and
    - distressed asset management.

Community and Partnerships

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

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

Mike Riley & Nick Gregory
Joint Chief Executive Officers
1 December 2011

Financial Review

> Operating business performance again shows an improvement on the previous year and continues to demonstrate the benefits of our robust portfolio.

Victoria Whitehouse Finance Director

Average shop rent
£12,031 p.a.

This report has been prepared in accordance with International Financial Reporting Standards (IFRS). During the year, as described in the Business Review, the Group has entered into two new joint ventures which have resulted in the adoption of IAS 31 for the first time. The accounting policy adopted in respect of these investments is described in the basis of preparation note provided in the Notes to the Financial Statements.

Key performance indicators

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

	30 September 2011	30 September 2010
Interest cover*	215%	211%
Loan to value (LTV) ratio†	68.5%	67.3%
Adjusted NAV per share‡	76 pence§	81 pence§
Gearing (net of cash held)	234%	218%
Recurring profit per share	4.0 pence	3.6 pence

* Based on rental income compared to interest payable.
† Net of cash held on substitution to buy properties.
‡ Based on 82,505,853 shares in issue at 30 September 2011 (2010: 82,505,853).
§ Adjusted to exclude the fair value of financial derivatives.

Recurring profit

The Group's operating business performance again shows an improvement on the previous year and continues to demonstrate the benefits of our robust portfolio with its diversified tenant base and affordable rents.

The recurring profit for the year was £3.24m (2010: £2.94m). The calculation of recurring profit remains consistent with previous years. It also includes the Group's share of the recurring result of the joint ventures entered into in the year. The calculation is as follows:

	30 September 2011	30 September 2010
IFRS reported result	(710)	1,815
Movement in fair value of the portfolio	3,843	(2,667)
Movement in the fair value of the interest rate swaps held	131	3,789
Profit on sale of investment properties	(51)	(7)
Loss on disposal of fixed assets	–	4
Non-recurring costs associated with the set up of the new joint ventures	30	–
Recurring result from joint ventures	(3)	–
Recurring profit	3,240	2,934

Financial Review continued

> Rental income increased in the year as a result of the properties purchased in the previous year, the conversion to flats of redundant space and a fall in the portfolio void rate.

The two amounts included in the above recurring profit calculation in relation to the joint ventures have been calculated as follows:

- Only the fees received for the ongoing management of the portfolios owned by the joint ventures are included in the Group's recurring profit calculation. The Group also receives one-off acquisition fees, as properties are purchased; and
- A recurring result has then been calculated from the joint ventures on the same basis as for the Group and included above. The main adjustment made to arrive at the recurring result is the add back of set-up costs incurred which are one-off in nature.

The Group's dividend policy continues to be the payment of 100% of recurring profits. The recurring profit per share is 4.0 pence (2010: 3.6 pence). Therefore, a dividend will be paid of 2.1 pence (2010: 1.9 pence) by 31 December 2011 to shareholders on the register at 9 December 2011 which, together with the dividend of 1.9 pence per share (2010: 1.7 pence) which was paid on 30 June 2011, takes the total dividend for the year to 4.0 pence (2010: 3.6 pence). As in previous years, the Employee Benefit Trust will waive its right to a dividend.

Dividends distributed by REITs are known as PIDs and non-PIDs. The dividend to be paid by 31 December 2011 will be a non-PID. The allocation of future dividends between PID and non-PID may vary.

Results

The Group has recorded an IFRS loss for the year of £0.7m, mainly as a result of the write down of the value of the property portfolio which is recorded in the Income Statement, in accordance with IFRS.

Rental income increased in the year as a result of the properties purchased in the previous year, the conversion to flats of redundant space in both the current and previous years and a fall in the portfolio void rate. The impact of sales and purchases completed to 30 September 2011 on future rent is minimal.

Property operating costs have remained constant despite the additional costs incurred following the removal of empty rates relief on vacant properties in April 2011. A full year of this additional expense will be incurred in the coming financial year. Letting costs increased in the year under review compared to the prior year. As previously described, these costs are highly dependent on the turnover of tenants and the ability to use Law Society leases as opposed to engaging third party lawyers to complete the lettings. As described in the Business Review, the bad debt charge for the year has fallen considerably which has compensated for the increase in other property costs described above.

Administrative expenses increased during the year. This arose, in part, from an increase in the undrawn commitment fee incurred on the undrawn facilities from HSBC at the start of the financial year. The remainder of the increase occurred as the activity levels within the business grew throughout the year. An additional member of staff has also been recruited to assist with growing reporting requirements.

Net other income grew in the year as a result of the acquisition fees and management fees received from the joint ventures. Included in other expenses are the set-up fees incurred on the joint ventures.

Interest payable increased year on year as further funds were drawn down to invest in the existing portfolio and the new joint ventures. The Group continues to hold the same interest rate swaps as in 2010. The liability arising from these swaps has remained constant compared with 2010 with only a £0.1m charge being taken to the Income Statement for the year.

Net assets

The net assets of the Group have fallen to £53.8m at the year end, compared to £57.6m in 2010. The fall is largely as a result of the decline in value of the portfolio, together with a strategic increase in investment in a number of vacant properties.

During the year over £1m was invested in the upper parts of properties, their conversion to residential flats and the reconfiguration of existing flats to improve the rental income generated by these properties. Further investment was made to exploit the additional development opportunities within the portfolio and in maintaining their current level of repair to ensure they are able to attract and retain tenants.

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

Joint Ventures

It has been considered most appropriate to adopt equity accounting in respect of the investments made in the new joint ventures. At the year end the Group had invested £1.9m into these ventures. After the revaluation of its property portfolio, the Group's share of profit made by the joint venture with Pramerica has recorded a minor profit. The second venture entered into very close to the year end has recorded a small loss due to set-up costs. Further details of these joint ventures are given in note 9 below.

Bank debt and facilities

The Group operates using the following facilities:

Loan	Facility £m	Loan outstanding £m	Undrawn £m	LTV covenant	Repayable in one instalment	Termination date
Barclays fixed rate loan	69.2	69.2	–	No	Yes	October 2016
HSBC fully drawn term loan	47.7	47.7	–	No	Yes	April 2016
HSBC term loan	25.0	10.5	14.5*	Yes	Yes	October 2016
HSBC revolving credit facility	35.0	3.9	31.1	Yes	Yes	October 2016
		131.3	45.6			

As shown above, at 30 September 2011 the total debt drawn down by the Group was £131.3m. The facilities available to the Group remained unchanged throughout the year. *Since the year end the £14.5m undrawn term facility with HSBC has been cancelled, thereby reducing the undrawn facilities available to £31.1m. None of the loan facilities fall due for repayment before 2016.

During the year the Group drew down and repaid the HSBC revolving credit facility as needed. This resulted in a net repayment of £1.2m during the year. This facility includes an LTV covenant of 85%, together with actual and forecast interest cover tests. There is an undrawn commitment fee of 60 basis points which has been applicable to the undrawn facility throughout the year.

The Group continues to hold properties with a total value of £26.4m which have no debt drawn against them. These could be used in a number of ways which, together with the loan facilities available, give the Group flexibility to exploit opportunities as they arise in the future and to fund the commitments made to the joint ventures.

Taxation

The Group continued to operate as a REIT throughout the year. Accordingly, any profits and gains from the property investment business should be exempt from Corporation Tax provided certain conditions continue to be met. The asset management income earned in the year will form part of the "residual" business, profits from which are not exempt from Corporation Tax. However, this income remained minimal in the year and the Group has available losses to relieve any such profits arising. Therefore, no provision for Corporation Tax has been made.

Victoria Whitehouse
Finance Director
1 December 2011

> "The Group continues to hold properties with a total value of £26.4 million which have no debt drawn against them"

Board of Directors

1. Grahame Whateley

Independent Non-Executive Chairman, aged 68

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

2. Michael Riley

Joint Chief Executive Officer, aged 51

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

3. Nicholas Gregory

Joint Chief Executive Officer, aged 46

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

4. Victoria Whitehouse

Finance Director, aged 38

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

5. Stephen East

Senior Independent Non-Executive Director, aged 53

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

6. Nicholas Vetch

Independent Non-Executive Director, aged 49

Having trained as a Chartered Surveyor, Nick Vetch became Chief Executive of Edge Properties which he founded in 1989. In 1998 he founded Big Yellow Group PLC, of which he is Executive Chairman. He is also a non-executive director of Blue Self Storage SL, which operates in Spain. Nick Vetch serves on the Audit Committee and chairs the Remuneration Committee.

7. William Heaney

Company Secretary

Principal Risks and Uncertainties

The directors recognise that no commercial reward comes without some element of risk. The Company's approach to risk management reflects its granular business model and position in the market and involves the expertise of its asset managers and third party advisers. The management team evaluates each investment and asset management decision on its own merits. Key decisions are considered in regular management team meetings as well as being subject to informal peer review. Higher level risks and financial exposures are subject to constant monitoring. Decisions on major investments, including entering into joint venture arrangements and partnerships, are reviewed by the Board as a whole.

Potential Risk	Impact	Mitigating Factors
Property Portfolio Performance		
Effect on tenants of downturn in macro-economic environment	• Tenant defaults and reduced rents arising from economic conditions • Increased void costs • Reduction in Net Asset Value	• Rental arrears continually monitored. Early discussions with tenants appearing to be in difficulties • Limited requirement for tenant incentives within local shopping sector • Close liaison with local agents enables swift decisions on individual properties • Research and experience indicates that small traders take early action to survive tough economic conditions • Early action to take control of units where it is in the parties' best interests to do so • Diverse tenant base
Failure to purchase investments at yields consistent with business model and investment strategy	• Reduction in portfolio Net Asset Value and Total Property Return	• Defined investment criteria • Independent valuations prior to purchase • Internal review and sign-off by two directors • Investment policy reviewed regularly by Board
Failure to identify properties appropriate for sale and/or sales at under-value	• Unsatisfactory return generated	• Regular review of individual property returns and potential income stream • Consideration at regular asset management meetings • Marketing and sale prices approved by two directors • Portfolio performance regularly reviewed by Board
Higher than anticipated property maintenance or development costs	• Costs not matched by future income streams and/or improvement in property value	• Maintenance costs identified at purchase and covered in purchasing decision • All material expenditure authorised by asset manager and director • Property development decisions subject to rigorous criteria and reviewed at regular team meetings • Capital expenditure reviewed at monthly asset management meetings

Principal Risks and Uncertainties continued

Potential Risk	Impact	Mitigating Factors
Property Portfolio Performance		
Inability to let vacant properties	• Reduction in portfolio return	• Sustainable location and property use are prime determinants of acquisition decision • Regular review of all properties for lease expiries, breaks and tenant risk
Non-exploitation of asset management opportunities	• Failure to maximise portfolio returns	• Regular review of all properties for opportunities to improve returns through restructuring occupier terms and taking advantage of development opportunities • Development projects appraised and progress reviewed at regular meetings and progress reported to Board
Properties inadequately or inappropriately insured	• Loss of portfolio value and income	• Consultant retained to ensure adequate cover is in place for all properties • "Average cover" facility in place to ensure no single property is under-insured • Insurance policy and selection of insurers regularly reviewed with advisers
Changes to UK/EU legal environment, planning law or local planning policy	• Adverse impact on portfolio • Loss of development opportunity	• Monitoring of UK property environment and regulatory proposals • Close liaison with agents and advisers • Membership of and dialogue with relevant industry bodies
Failure to comply with regulatory requirements in connection with property portfolio, including health, safety and environmental	• Tenant and third party claims resulting in financial loss • Reputational damage	• Managing agents and professional advisers retained to provide guidance on regulatory requirements • Asset managers and agents monitor individual properties • Managing agents operate formal regulatory certification process for residential accommodation • Ongoing programme of risk assessments for key multi-tenanted sites • Insurance policies cover key risks
Failure to attract and retain staff of required calibre	• Loss of skills, knowledge and business relationships • Reputational damage	• Remuneration packages regularly reviewed against market • Remuneration Committee oversight • Formal appraisal and informal review processes in place • Individual development plans agreed with team members, with external training and qualification programmes supported

Potential Risk	Impact	Mitigating Factors
Corporate Governance & Management		
Non-availability of information technology systems or failure of data security	• Loss of applications impacts on operations • Loss of data impacts on reporting ability • Action against Company in relation to data protection • Financial loss arising from leak of confidential information	• System security regime in place • Certain systems hosted off-site • Off-site data backup arrangement • Insurance policies cover various impact areas
Non-compliance with UK REIT rules	• Expulsion from REIT regime • Imposition of tax charge	• Compliance with REIT rules regularly checked and reported to Board • Independent advisers retained to advise on ongoing REIT compliance and issues arising from individual corporate activities • Ongoing management dialogue with HMRC • Non-executive overview
Financial market conditions	• Insufficient finance available at acceptable rates to fulfil business plans • Financial impact of debt interest and costs of undrawn facilities • Breach of banking covenants	• Policy of hedging 60%–100% of debt • Impact of interest rates on property yields constantly monitored and property purchase and sale policy adjusted accordingly
Failure to manage debt levels	• Breach of banking covenants • Impact on business model • Insufficient funds to fulfil business plans	• Board monitors debt management reports and forecasts against annual plan and banking covenants
Mismanagement of financial instruments	• Financial loss	• Independent adviser retained • Board regularly monitors performance of financial instruments
Capital management and liquidity	• Inadequate working capital to satisfy financial commitments as they fall due	• Management forecasts prepared and reviewed to identify requirements • Sufficient debt facilities available to satisfy working capital requirements • Compliance with banking covenants reviewed, agreed with banks on quarterly basis and reported to Board

Corporate Responsibility

The principal contributors to the success of our business are:

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

This approach is reflected throughout the business, from the Board's stewardship through to our operational activities.

Health, Safety and Welfare

We place the highest priority on the welfare of our employees. In particular we recognise the risks faced by our staff when visiting remote sites. Although risk levels are considered to be generally low (and the levels of reportable incidents negligible), our employees are made fully aware of the guidelines which they are expected to adhere to for their own safety in such situations, in the knowledge that their welfare is the overriding consideration. Health and safety and environmental incidents are considered at all the Board's regular meetings. Our property managers and contractors are expected to ensure that all maintenance and construction activities conform to relevant regulations and that due consideration is given to the welfare of occupants and neighbours. We undertake regular checks of gas and electrical installations within the residential elements of our portfolio in conformance with regulatory requirements, addressing reported items for improvement, together with an ongoing programme risk assessments covering relevant multi-occupancy sites.

Employees

Individual employees take on a high degree of responsibility for delivering value to the business and we are fortunate that the structure of our business lends itself to employee involvement and communication. A performance review process is in place, including individual development plans. Where appropriate, these include support for working towards industry-recognised qualifications. Recruitment procedures and staff development processes are reflective of the equality and diversity policies we have in place. Remuneration packages are reviewed regularly and are subject to Remuneration Committee oversight.

Environment and Communities

Our business model is by its nature supportive of reducing the carbon impact of retail shopping. Typically, our shops are within easy distance of their customers' homes or workplaces. Our development activity focuses on the return to profitable use of space that would otherwise remain vacant, including the conversion of redundant upper parts in town centres. Such work is carried out in accordance with applicable energy saving standards. Besides rejuvenating town centre locations, this reduces the development pressure on greenfield sites. Wherever possible, we use local agents and contractors. We have energy reduction and recycling arrangement in place in our office.

Governance

The Company is now subject to the UK Corporate Governance Code ("the Code"), which is in force for all companies with accounting periods beginning after 29 June 2010. Subject to matters set out below, the Company complies with all provisions of the Code to the extent to which they apply to companies outside the FTSE 350.

Board Composition

Biographical details for each of the directors, including their membership of the Board's committees, are set out on page 18. All the directors held office throughout the year to 30 September 2011, during which the Board comprised an independent Chairman, two further independent non-executive directors (including the senior independent non-executive director) and three executive directors. Board membership was therefore divided equally between executive and non-executive directors. Having considered the criteria set out in the Code and the character and attributes of each individual, the Board considers each of the non-executive directors to be independent within the spirit of the Code and that no individual or group can dominate decision-making.

The Company's Articles of Association require any director appointed to the Board during the year to be reappointed at the next Annual General Meeting. All directors are, as a minimum, subject to retirement and re-election at every third Annual General Meeting following their initial election. Grahame Whateley, Nick Vetch and Victoria Whitehouse retired from office at the 2011 Annual General Meeting and were reappointed at that meeting. Mike Riley and Stephen East will resign, and are expected to offer themselves for re-election, at the 2012 Annual General Meeting.

Although the Code does not require companies outside the FTSE 350 to re-elect their directors on an annual basis, it is the directors' intention to adopt this policy commencing with the 2013 Annual General Meeting.

Board Responsibilities and Operation

There is a formal schedule of items reserved for consideration by the Board, which is responsible for deciding the strategy of the business and its effective stewardship. All major investment decisions are taken by the Board as a whole. The Board meets regularly to review the Company's operations and the success of its strategy. Eight meetings were held during the year. Each Board meeting has a formal agenda. Key items are reviewed on a regular basis to enable the Board to monitor well-being and progress, including regular reports on portfolio performance, acquisitions and sales, asset management, as well as finance, business development and welfare and environmental matters. In consultation with the Board and committee Chairmen, the Company Secretary ensures that all directors receive relevant reports and papers prior to each meeting. The attendance record of directors at Board meetings is set out in the table below. Additional meetings and discussions are arranged outside the Board's regular schedule as necessary. The executive directors, to whom day-to-day operational management is delegated, consult the non-executive directors on a regular basis outside normal Board meetings. The non-executive directors also make themselves available to provide advice to the management team. The non-executive directors hold meetings and discussions in the absence of the executive directors.

The division of responsibilities between the executive and the non-executive directors continues to be well-defined and recorded. The Chairman's remit is clearly separate from that of the Joint Chief Executives, with the Chairman taking responsibility for corporate governance and effective leadership of the Board, and the Joint Chief Executives being responsible to the Board for the executive management of the business. The senior independent director provides a separate communications channel for shareholders and other interested parties, and also has a remit under the Company's internal "whistle-blowing" arrangements.

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

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

Nomination Committee

The Nomination Committee comprises at least three directors, the majority of whom are independent non-executive directors. The Committee approves all director appointments and is responsible for ensuring that the required standards of skills, experience and stewardship ability are met. In appointing new directors, the Committee and the Board consider advice from external professional consultants. It has been the Board's practice for candidates to be interviewed separately by executive and non-executive directors. The Committee has formal terms of reference approved by the Board and is chaired by the Company's senior independent non-executive director, Stephen East. The Committee did not meet during the year.

Governance continued

Audit Committee

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

- monitoring the integrity of the Company's financial statements and formal announcements relating to its financial performance (subject to the Board's overall responsibility for reviewing and approving the annual directors' report and financial statements);
- reviewing the adequacy and effectiveness of the Company's internal financial controls, internal control and risk management systems, fraud detection, regulatory compliance and whistle-blowing arrangements;
- overseeing the Company's relationship with the independent Auditors, assessing the Auditors' independence and objectivity, making recommendations to the Board on the Auditors' terms of engagement and remuneration;
- approving the annual audit plan and reviewing the Auditors' findings and the effectiveness of the audit.

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

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

Remuneration Committee

Full details of the membership of the Remuneration Committee and the Company's remuneration policy are set out in the Remuneration Report on pages 30 to 33. The Committee met three times during the year. Each member's attendance record is set out in the table below.

Attendance at Board and Committee Meetings

Director	Board	Audit	Remuneration	Nomination
Stephen East	8	4	3	–
Nick Gregory	8	n/a	n/a	–
Mike Riley	8	n/a	n/a	–
Nick Vetch	8	4	3	–
Grahame Whateley	8	n/a	3	–
Victoria Whitehouse	8	n/a	n/a	–

Performance Evaluation of the Board and its Committees

The Board has agreed the institution of a performance evaluation process covering the membership, remits and operations of the Board and its Committees. The process will be led by the senior independent director, supported by the Company Secretary, and will involve the use of confidential questionnaires and follow-up interviews.

Directors' interests in contracts

No director has any material interest in any contract or arrangement with any company within the Group. The interests of the directors in the issued share capital of the Company as at the date of this report, all of which were beneficial, are set out below. Save for the contingent interests of participants in the Company's Long Term Incentive Plan in shares in the Company held by LSR Trustee Limited, none of the directors has any beneficial interest in any subsidiaries of the Company. The Company's Articles of Association provide a framework for directors to report actual or potential situational conflicts, enabling the Board to give such situational conflicts appropriate and early consideration. All directors are aware of the importance of consulting the Company Secretary regarding possible situational conflicts.

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

	Ordinary 20p shares	
Director	2011	2010
Stephen East	75,000	75,000
Nicholas Gregory	600,000	600,000
Michael Riley	600,000	600,000
Nicholas Vetch	2,873,563	2,873,563
Grahame Whateley	7,660,918	7,660,918
Victoria Whitehouse	1,149	1,149

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

Directors' Indemnities and Insurance Cover

To the extent permitted by law, the Company indemnifies its directors and officers against claims arising from their acts and omissions related to their office. In accordance with the Code, the Company also maintains an insurance policy in respect of claims against directors. The Company has also arranged professional indemnity insurance cover in relation to its asset management activities.

Directors' Performance Appraisal

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

Director Induction

Arrangements are made to provide new directors with an induction programme into the Company's activities. Non-executive directors visit the Company's offices between formal meetings and asset managers are pleased to make arrangements for them to inspect its investment properties.

Internal Governance Policies

The directors recognise that the Company's ability to operate successfully is largely dependent on the maintenance of its straightforward approach to doing business and its reputation for integrity. Our employees and those who act on our behalf are therefore required to behave and transact business in accordance with the highest professional standards. Besides adhering to the Company's own policies and procedures, this includes complying with the regulations of the professional bodies to which they are affiliated. Procedures are in place enforcing the Model Code, Anti-money Laundering regulations, the Data Protection Act and the Bribery Act, as well as customer care and external complaint guidelines. These are underpinned by a "whistle-blowing" procedure, enabling employees to notify perceived irregularities to members of the Board, principally the senior independent non-executive director.

Internal Controls

The Board has overall responsibility for the Company's internal control systems and for monitoring its effectiveness. The Board's approach is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatements or loss. Having regard to the Company's size, the establishment of a separate internal audit function has not been considered appropriate. The Board's approach to internal controls covers all companies within the Group and there are no associate or joint venture entities which it does not cover. A summary of the principal risks and uncertainties to which the business is exposed may be found on pages 19 to 21.

Governance continued

The principal foundations of the Company's internal control framework, which remained in place throughout the period, are:

- statements of areas of responsibility reserved to the Board and its committees, with prescribed limits to executive directors' authority to commit to expenditure and borrowing;
- effective committee structure with terms of reference and reporting arrangements to the Board;
- clear remits for the delegation of executive direction and internal operational management functions;
- framework for independent directors to provide advice and support to executive directors on an individual basis.
- top-level risk identification, evaluation and management framework monitored by the Audit Committee;
- internal procedures manual covering all operational activity, limits of authority and authorisation procedures;
- effective systems for authorising capital expenditure and significant revenue items and monitoring actual cost incurred;
- regular review meetings with managing agents and other advisers, including review of agents' management and reporting systems;
- structured induction process for all joiners and ongoing staff development;
- regularly updated internal staff handbook explaining the Company's policies and procedures, including health and safety, corporate governance and professional conduct;
- scheduled team meetings to review operational progress and discuss future developments;
- established procedures for electronic information control and security;
- regular independent audits;
- regular operational and individual performance reviews by executive management;
- 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 to the Board of health, safety and environmental matters.

As part of its year-end process, the Board reviewed the effectiveness of the Company's risk management systems against the principal risks facing the business and their associated mitigating factors, and considers that the Company's current approach is acceptable.

KPMG non-audit work

In order to safeguard the objectivity of the Company's Auditors, strict procedures are in place for the engagement of KPMG Audit Plc and its related entities in non-audit work. Careful consideration is given to whether such work might give rise to a conflict of interest and the Chairman of the Audit Committee must separately authorise any item of work that could result in fees being paid in excess of 50% of the audit fee in any year.

Investor Relations

The directors place considerable emphasis on strong communication links with the Company's investors, maintaining a continuing programme of meetings with shareholders, subject to regulatory constraints. These usually involve the Joint Chief Executive Officers and the Finance Director, although non-executive directors may also attend. The Chairman is happy to arrange additional meetings with investors on request. The Board is provided with feedback on these meetings, as well as commentary from investors and the Company's bankers and advisers. The Board provides interim management reports and other announcements in accordance with regulatory requirements. Regulatory announcements and key publications are also fed into the Company's website. The Company's Annual General Meeting provides a further forum for investors to discuss the Company's progress. The Company complies with relevant regulatory requirements in relation to convening the meeting, its conduct and the announcement of voting on resolutions. The Annual Report and Notice of the Annual General Meeting are sent to shareholders at least 20 working days prior to the meeting and are available on the Company's website. The results of resolutions considered at the Annual General Meeting are announced to the Stock Exchange and are also published on the website. Investors may elect to receive communications from the Company in electronic form and be advised by email of their availability on the Company's website.

Acquisitions and Disposals

The Group made no material acquisitions or disposals during the year. During the year the Group entered into two joint venture arrangements.

Group Companies

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

Group Result and Dividend

The IFRS loss for the Group attributable to shareholders for the year was £0.7m (2010: IFRS profit £1.8m). The recurring profit for the year was 4.0p per share (2010: 3.6p). The definition of recurring profit is set out in the glossary of terms at the end of the Report. An interim dividend of 1.9p per Ordinary Share was distributed on 30 June 2011 as a Property Income Distribution ("PID"). A further dividend for the year of 2.1p per Ordinary Share will be distributed as a non-PID on 31 December 2011 to holders of each of the Ordinary Shares in issue and entitled thereto on 9 December 2011.

Use of financial instruments

The Company's use of financial instruments to reduce its exposure to risks arising from interest rate fluctuations is described in note 18 to the financial statements.

Share Capital

Details of the Company's issued share capital are set out in note 15 to the financial statements. All of the Company's issued shares are listed on the London Stock Exchange. The Company's share capital comprises one class of Ordinary Shares of 20p each. All issued shares are fully paid up and rank equally. Shares acquired through the Company's employee share schemes rank *pari passu* with shares in issue and no shares carry special rights regarding control of the Company. The Company's Articles impose requirements on shareholders in relation to distributions and the size of individual holdings, in order to ensure that the Company continues to conform to the UK REIT regime. Subject to this, there are no restrictions on the transfer of shares or the size of holdings. The directors are not aware of any agreements between shareholders in relation to the Company's shares. The Company's issued share capital did not alter during the year.

Transactions in the Company's shares

The Company's previous authority to purchase its own shares was extended at the Annual General Meeting in March 2011, which authorised purchases of up to 14.99% of the Company's issued Ordinary Share capital (excluding shares held in treasury). This authority expires at the 2012 Annual General Meeting, at which a resolution will be proposed for its renewal. The directors exercise their authority to purchase the Company's shares only when they consider it in the Company's best interests to do so. No share purchases were made during the year.

The 2011 Annual General Meeting also authorised the directors to offer shareholders the alternative of receiving fully paid Ordinary Shares in lieu of dividends. This authority was not used during the year.

Substantial interests

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

Name	Ordinary Shares	%
Schroder Investment Management Limited	9,685,482	11.74
J G Whateley	7,660,918	9.28
AXA Framlington	7,850,000	9.51
M&G Investment Management Limited	6,603,989	8.00
European Investors Inc	4,625,366	5.61
Henderson Global Investors	4,002,518	4.85
First State Investments	3,524,695	4.27
Conygar Investment Company Plc	3,152,214	3.82
Thames River Capital LLP	2,898,330	3.51
N J Vetch	2,873,563	3.48
APG Investments	2,497,600	3.03

Effect of change of control on significant contracts

Funding agreements entered into by certain Group companies require the written approval of the relevant bank before any change can be made to the nature, constitution, management or ownership of the business. Certain of the Group's third party asset management contracts contain provisions relating to change of control of the operating subsidiary or the Group. The employment contracts of directors and other members of staff do not contain any provisions specifically relating to a change of control. The Company's employee share schemes contain change of control provisions which are considered to be standard for such schemes.

Key Contracts

Certain Group companies have entered into funding arrangements with lenders. These are described in notes 12 and 18 to the financial statements. Certain Group companies also participate in joint venture arrangements and asset management contracts with external parties.

Governance continued

Supplier Payments

Our business model is reliant on the maintenance of good relationships with our suppliers and we aim to deal with them on a fair and open basis and make payments within agreed terms. As at 30 September 2011 there were 26 suppliers' days outstanding (2010: 23 days).

Employee Share Schemes

The Company operates the following employee share schemes:

- The Local Shopping REIT plc Company Share Option Plan ("CSOP"); and
- The Local Shopping REIT plc Long Term Incentive Plan ("LTIP").

Details of these schemes are set out in the Directors' Remuneration Report on pages 30 to 33. The Company's Employee Benefit Trust operates to supply shares as appropriate to meet obligations arising from employee share schemes. The voting rights of shares held by the Employee Benefit Trust are identical to the remainder of the Company's issued share capital. The Employee Benefit Trust has waived its entitlement to dividends for the period.

REIT Regime

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

Charitable and Political Donations

During the year the Company made no donations to charitable organisations (2010: nil) or for political purposes (2010: nil).

Amendment of Articles

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

Auditors

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

Going Concern

The directors have considered the appropriateness of preparing the financial statements on a going concern basis. The diversity of the tenant base across retail sectors and its geographical spread around the country, as illustrated on page 4, demonstrates no reliance on one significant tenant. The drawn and undrawn loan facilities, together with the attached covenants, are detailed on page 17. All covenants have been met throughout the year. The Group has debt free properties of £26.4m which could be applied to remedy any breach of the interest cover tests. Each loan is due for repayment in one instalment in 2016. At 30 September 2011 the Group had undrawn facilities in place of £45.6m. Although this was reduced to £31.1m in October 2011 following the directors' decision to cancel part of the undrawn facilities, there remain adequate facilities to finance the Group's commitments. The Group's joint venture arrangements have separate finance facilities. Therefore, in the absence of unforeseen circumstances, the directors consider that the Group will continue to be compliant with its banking covenants and have sufficient resources available to continue as a going concern for at least the next 12 months. Accordingly, the financial statements have been prepared on a going concern basis.

Responsibilities Statement

The directors confirm that to the best of their knowledge:

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

Remuneration Report

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

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

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

Nick Vetch (Committee Chairman);
Stephen East; and
Grahame Whateley.

Biographical details of the members of the Committee are set out on page 18. The Committee met three times during the year. Other than the Company Secretary, who serves as secretary to the Committee, other directors or executives attend meetings of the Committee only by invitation. The three executive directors attended one of the Committee's meetings, at which no matters were discussed in which the executive directors had any personal interest. In setting the remuneration packages of the executive directors and establishing the Company's share-related incentive plans, the Committee has access to independent advice from New Bridge Street, remuneration consultants. New Bridge Street are part of Aon Hewitt Limited, which does not provide any other services to the Group.

Remuneration Policy

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

within a competitive market, enabling the recruitment and retention of individuals whose talent matches the entrepreneurial and leadership needs of the business, enabling the Company to fulfil its investment objectives for its shareholders; and

placing emphasis on performance-related rewards and focusing on incentive targets that are closely aligned with the interests of shareholders.

The Committee aims to reflect these principles in the mix of basic pay, benefits, annual bonus and long-term awards contained in the remuneration packages adopted for the executive directors and senior managers. The approach adopted by the Committee is to set base pay and other fixed remuneration for executive directors at less than the median for companies in the FTSE real estate sector, with total remuneration including performance-based awards being aimed at between the median and upper quartile relative to the sector. However, rewards at this level will only be generated provided the executives achieve stretching performance targets. It is the Company's policy to use the Employee Share Option Plan, described below, to incentivise all permanent employees to contribute to the success of the business.

Base Pay and Benefits

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

Directors' Pensions

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

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

Remuneration Report continued

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. No awards were made under the bonus plan during the year.

Long Term Incentive Plan ("the LTIP")

Under the terms of the LTIP employees, including executive directors, may be granted awards of the Company's shares in the form of a nil cost option. The LTIP is operated by the Committee in conjunction with the Company's Employee Benefit Trust ("EBT"), which may grant awards on the Committee's recommendation. The exercise of awards granted under the LTIP is conditional on the achievement of objective performance targets set by the Committee at the time of grant. Performance is measured over a minimum period of three years and awards may not be exercised until after the expiry of the relevant performance period. Awards to directors made under the LTIP are set out in the table below.

As stated in the 2010 Remuneration Report, during the year the Committee reviewed the operation of the LTIP, recognising (a) the inherent difficulties of measuring the Company (whose investment profile is unique within the listed property sector) against standard industry benchmarks; and (b) the need for awards to recognise more closely the investment objectives of the Company's shareholders. As a result of this review, it was decided to link LTIP awards to the achievement of recurring profit targets, which the Committee considers to be an appropriate benchmark given the Company's stated intention to distribute 100% of recurring profit in dividend.

Accordingly, LTIP awards made during the year adopted new performance targets, under which awards will vest to the extent that the recurring earnings per share ("recurring EPS") of the Company for each of the financial years through to 30 September 2013 exceed pre-determined targets. The amount of shares covered by each award is divided into three tranches, relating to the three financial years covered by the award. Each tranche has a separate recurring EPS target, below which no part of the tranche will vest, and an upper target, at which the tranche will vest in full. Awards vest on a straight-line basis between these two points. To safeguard against rewarding unsustainable profit performance, the tranches for 2010–11 and 2011–12 have additional hurdles relating to the recurring EPS for the following year. If this target is not achieved, none of the tranche will vest. As a further safeguard, the awards are subject to the achievement of an aggregate recurring EPS target for the three-year period of 13.96p. If this is not achieved, no part of the awards will vest. The awards made during the year are not capable of exercise until 12 January 2014. The award targets may be adjusted to take account of the cost of vesting awards arising under IFRS 2.

Year ended	% of overall award	Min. recurring EPS target	Max. recurring EPS target	Min. IFRS 2 adjusted recurring EPS target	Additional recurring EPS hurdle
30/09/2011	20%	4p	5p	3.62p	30/09/2012: 4.73p
30/09/2012	40%	4.73p	8.25p	3.94p	30/09/2013: 5.23p
30/09/2013	40%	5.23p	8.5p	4.36p	
					Overall aggregate: 13.96p

The awards made to directors under the previous vesting criteria lapsed during 2009–10.

Company Share Option Plan ("the CSOP")

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

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

Internal Relativity

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

Non-Executive Directors

The level of fees paid to non-executive directors was set at the time of the Company's admission to the Official List of the London Stock Exchange having regard to market levels at that time. The level of non-executive pay will be reviewed at least every three years by the Chairman and the executive directors, to whom the Board has delegated this task.

Directors' Contracts & Terms of Appointment

One-third of the directors are subject to retirement at each Annual General Meeting. For non-executive directors, the Company's policy is for initial appointments to be for a term of 12 months, subject to extension by periods of 12 months thereafter and also subject at any time to termination on notice by the Company or the director. This policy is reflected in the terms of the formal appointment document which is in place for each non-executive director, which also sets out the expected time commitment of the non-executive directors to the Company's affairs. Grahame Whateley has an appointment document dated 30 March 2007, subject to annual extensions. Nick Vetch has an appointment document dated 30 March 2007, subject to annual extensions. Stephen East has an appointment document dated 9 September 2009, subject to annual extensions.

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

External Appointments

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

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

Directors' Total Emoluments

Director	Salary £	Bonus £	Pension contributions £	Benefits in kind £	Total 2011 £	Total 2010 £
Non-executive Directors						
Stephen East	30,000	–	–	–	**30,000**	30,000
Nick Vetch	30,000	–	–	–	**30,000**	30,000
Grahame Whateley	50,000	–	–	–	**50,000**	50,000
Executive Directors						
Nick Gregory	285,000	–	26,000	5,598	**316,598**	316,289
Mike Riley	285,000	–	26,000	6,346	**317,346**	315,466
Victoria Whitehouse	125,000	–	1,280	1,696	**127,976**	129,280
Total	805,000	–	53,280	13,640	**871,920**	871,035

Directors' LTIP Awards

Director	Subject to award at 1 October 2010	Granted during year	Exercised during year	Lapsed during year	Shares subject to award at 30 September 2011	Market value per share at award date	Exercise date from	Exercise date to
Nick Gregory	–	619,905	–	–	**619,905**	£0.59	12 January 2014	11 January 2021
Mike Riley	–	619,905	–	–	**619,905**	£0.59	12 January 2014	11 January 2021
Victoria Whitehouse	–	186,821	–	–	**186,821**	£0.59	12 January 2014	11 January 2021
Total	–	1,426,631	–	–	**1,426,631**			

Remuneration Report continued

Directors' Service Contracts

Non-executive directors	Date of appointment as director	Date of current appointment letter	Expiry of term
Stephen East	10 September 2009	9 September 2010	9 September 2012
Nick Vetch	30 March 2007	30 March 2010	29 March 2012
Grahame Whateley	20 September 2004	30 March 2010	29 March 2012

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

TSR Performance Graph (Not Audited)

TSR performance from IPO on 2 May 2007 to 30 September 2011.

The foregoing reports were approved by the directors on 14 December 2011.

William A Heaney
Company Secretary

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

We have audited the financial statements of The Local Shopping REIT plc for the year ended 30 September 2011 set out on pages 36 to 63. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 28, in relation to going concern;
- the part of the Corporate Governance Statement on pages 23 to 28 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Darren K Turner (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
14 December 2011

Consolidated Income Statement

for the year ended 30 September 2011

	Note	2011 £000	2010 £000
Gross rental income		16,078	15,539
Property operating expenses		(2,628)	(2,646)
Net rental income		13,450	12,893
Profit on disposal of investment properties		51	7
(Loss)/gain from change in fair value of investment properties	8	(3,843)	2,667
Loss on disposal of fixed assets		–	(4)
Administrative expenses	3	(2,736)	(2,573)
Net other income/(expense)	4	40	(40)
Share of results from jointly controlled entities	9	(55)	–
Operating profit before net financing costs		6,907	12,950
Financing income*	5	4	7
Financing expenses*	5	(7,490)	(7,353)
Movement in fair value of financial derivatives		(131)	(3,789)
(Loss)/profit before tax		(710)	1,815
Taxation	6	–	–
(Loss)/profit for the financial year attributable to equity holders of the Company		(710)	1,815
Basic and diluted (loss)/earnings per share	16	(0.9)p	2.2p

* Excluding movement in the fair value of financial derivatives.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011

	2011 £000	2010 £000
(Loss)/profit for the financial year	(710)	1,815
Total comprehensive income for the year	(710)	1,815
Attributable to:		
Equity holders of the parent Company	(710)	1,815

Consolidated Balance Sheet

as at 30 September 2011

	Note	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	7	161	189
Investment properties	8	190,111	194,079
Investments in jointly controlled entities	9	1,823	–
Total non-current assets		192,095	194,268
Current assets			
Trade and other receivables	10	3,773	4,337
Cash	11	4,461	6,120
Total current assets		8,234	10,457
Total assets		200,329	204,725
Non-current liabilities			
Interest bearing loans and borrowings	12	(130,620)	(131,691)
Finance lease liabilities	14	(922)	(1,206)
Derivative financial instruments	17	(7,264)	(6,746)
Total non-current liabilities		(138,806)	(139,643)
Current liabilities			
Interest bearing loans and borrowings	12	–	–
Trade and other payables	13	(5,689)	(5,061)
Derivative financial instruments	17	(1,994)	(2,381)
Total current liabilities		(7,683)	(7,442)
Total liabilities		(146,489)	(147,085)
Net assets		53,840	57,640
Equity			
Issued capital	15	18,334	18,334
Reserves	15	3,773	3,773
Capital redemption reserve	15	1,764	1,764
Retained earnings		29,969	33,769
Total attributable to equity holders of the Company		53,840	57,640

The financial statements were approved by the Board of directors and authorised for issue on 14 December 2011. They were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 05304743.

Our Financials

Consolidated Statement of Cash Flows

for the year ended 30 September 2011

	Note	2011 £000	2010 £000
Operating activities			
(Loss)/profit for the year		(710)	1,815
Adjustments for:			
Loss/(gain) from change in fair value of investment properties	8	3,843	(2,667)
Net financing costs	5	7,617	11,135
Profit on disposal of investment properties		(51)	(7)
Loss on disposal of fixed assets		–	4
Payment of finance leases		124	116
Depreciation	7	38	38
Employee share options		3	107
Share of results of jointly controlled entities		55	–
		10,919	10,541
Decrease in trade and other receivables		552	310
Decrease/(increase) in trade and other payables		759	(174)
		12,230	10,677
Interest paid		(7,491)	(7,331)
Interest received		4	7
Net cash from operating activities		4,743	3,353
Investing activities			
Proceeds from sale of investment properties		5,020	4,589
Acquisition and improvements to investment properties		(5,116)	(20,356)
Acquisition of property, plant and equipment		(11)	(51)
Investment in jointly controlled entities		(1,878)	–
Cash flows from investing activities		(1,985)	(15,818)
Net cash flows from operating activities and investing activities		2,758	(12,465)
Financing activities			
Repayment of borrowings		(2,200)	–
New borrowings		1,000	15,600
Dividends paid		(3,093)	(2,848)
Payment of finance lease liabilities		(124)	(116)
Cash flows from financing activities		(4,417)	12,636
Net (decrease)/increase in cash		(1,659)	171
Cash at 1 October 2010		6,120	5,949
Cash at 30 September 2011	11	4,461	6,120

Consolidated Statement of Changes in Equity

for the year ended 30 September 2011

	Share capital £000	Reserves £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance at 1 October 2009	18,334	3,773	1,764	34,695	58,566
Total comprehensive income for the year					
Profit for the year	–	–	–	1,815	1,815
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(2,848)	(2,848)
Share-based payments	–	–	–	107	107
Total contributions by and distributions to owners	–	–	–	(2,741)	(2,741)
Balance at 30 September 2010	18,334	3,773	1,764	33,769	57,640
Total comprehensive income for the year					
Loss for the year	–	–	–	(710)	(710)
Transactions with owners, recorded directly in equity					
Dividends	–	–	–	(3,093)	(3,093)
Share-based payments	–	–	–	3	3
Total contributions by and distributions to owners	–	–	–	(3,090)	(3,090)
Balance at 30 September 2011	**18,334**	**3,773**	**1,764**	**29,969**	**53,840**

Notes to the Financial Statements

for the year ended 30 September 2011

1 Accounting Policies

Basis of Preparation

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

The financial statements are prepared in pounds sterling, rounded to the nearest thousand. They have been prepared under the historical cost convention except for the following assets which are measured on the basis of fair value: investment properties and derivative financial instruments. They have been prepared on a going concern basis as explained on page 28.

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 2011. Subsidiaries are consolidated from the date on which the Group obtains control, being the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. They continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies. Inter-company transactions and balances are eliminated.

Investment Property

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

The fair value of investment properties 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 on the basis of market value at the year end by the directors who have appropriate recognised professional qualifications and recent experience of the location and category of the property being valued.

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

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

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

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

Head Leases

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

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

1 Accounting Policies continued

Property, Plant and Equipment

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

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

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

Joint Ventures

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

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

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

Trade and Other Receivables

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

Cash and Cash Equivalents

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

Derivative Financial Instruments and Hedging

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

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

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

Notes to the Financial Statements continued

for the year ended 30 September 2011

1 Accounting Policies continued

Financial Assets

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

Trade and Other Payables

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

Ordinary Share Capital

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

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

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

Rental Income

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

Other Income

Other income includes asset management fees which are recognised in the Income Statement as earned under the terms of each agreement.

Taxation

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

As a REIT, the Group will be exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions. Non-qualifying profits and gains of the Group (the residual business) continue to be subject to corporation tax. Therefore, current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The REIT entry charge is expensed on the date of entry to the REIT regime.

Deferred tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying amounts of assets and liabilities in the financial statements for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is calculated after taking into account any indexation allowances and capital losses on an undiscounted basis. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are only offset if there is a legally enforceable right of set-off.

Pensions

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

Share-Based Payments

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

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

1 Accounting Policies continued

Employee Benefit Trust

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

Use of Estimates and Judgements

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

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

The valuation of the Group's investment properties is the main area of judgement exercised by the Board in respect of the Group's results. The Board has obtained an external valuation of the portfolio carried out by professionally qualified valuers in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors in respect of all properties purchased since 1 October 2010 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 the Group's bank and JC Rathbone Associates Limited. These valuations have been relied upon by the Board.

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

New Standards and Interpretations Not Yet Adopted

There are a number of new standards, amendments to standards and interpretations of standards which are not yet effective for the year ended 30 September 2011 and have not been applied in preparing these consolidated financial statements. These are as follows:

- IFRIC 19 – Extinguishing financial liabilities with equity instruments.

Amendments to existing standards

- Annual improvements project;
- IAS 24 – Related parties has been revised mainly around the related party disclosures concerning government-related entities and the definition of a related party;
- Amendments to IFRS 1 regarding the first time adoption of IFRS;
- Amendments to IFRS 7 – Financial instruments disclosures and transfers of financial assets;
- Amendments to IAS 1 – Presentation of financial statements concerning the changes in the statement of equity;
- Amendments to IAS 34 – Interim financial reporting;
- IFRIC 13 – Customer Loyalty programmes; and
- Amendments to IFRIC 14 – Prepayments of minimum funding requirement.

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

At the date of approval of these financial statements, the following interpretations and amendments to standards were issued, endorsed by the EU and are mandatory for the Group for the first time for the financial year beginning on 1 October 2010:

- Amendments to IAS 12 – Deferred tax and the recoverability of the underlying assets;
- Amendments to IAS 1 – Presentation of financial statements concerning the presentation of items in other comprehensive income;
- IFRS 9 – Financial Instruments which will replace IAS 39;
- IFRS 10 – Consolidated financial statements which will replace the existing standards on consolidation and joint ventures;
- IFRS 11 – Joint ventures;
- IFRS 12 – Disclosure of interests in other entities;
- IFRS 13 – Fair value measurement, a new standard to replace existing guidance on fair value measurement and to provide a measurement framework;
- Amendments to IAS 19 – Defined benefit plans; and
- IFRIC 20 – Stripping costs in the production phase of a surface mine.

Notes to the Financial Statements continued

for the year ended 30 September 2011

2 Segmental Reporting

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

During the year two new joint venture agreements were entered into by the Group. Since the establishment of these entities the Group has identified two operating and reporting segments which are reported to the Board of Directors on a quarterly basis. The Board of Directors is considered to be the chief operating decision maker.

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

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

	2011			2010		
	Properties owned directly £000	Asset management £000	Total £000	Properties owned directly £000	Asset management £000	Total £000
Recurring profit	3,190	50	3,240	2,934	–	2,934
Movement in fair value of portfolio	(3,843)	–	(3,843)	2,667	–	2,667
Movement in fair value of interest rate swaps held	(131)	–	(131)	(3,789)	–	(3,789)
Profit/(loss) on sale of investment properties	51	–	51	7	–	7
Loss on disposal of fixed assets	–	–	–	(4)	–	(4)
Non-recurring costs associated with the set-up of the new joint ventures	–	(27)	(27)	–	–	–
IFRS reported (loss)/profit for the year	(733)	23	(710)	1,815	–	1,815

The Group does not hold any assets or liabilities in connection with the asset management segment at the year end. Therefore, the entire statutory Balance Sheet represents the assets and liabilities attributable to the segment defined as properties owned directly.

3 Administrative Expenses

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

	2011 £000	2010 £000
Auditors' remuneration for audit services:		
Audit of parent Company	32	32
Auditors' remuneration for non-audit services:		
Statutory audit of subsidiaries	50	48
Tax services	34	34
Other services supplied	41	18

The other services supplied relate to the review report issued in respect of the Half Year Review and other professional fees incurred in connection with the investments made in the jointly controlled entities.

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:

	2011 Number of Employees	2010 Number of Employees
Administration	16	16

The aggregate payroll costs of these people were as follows:

	2011 £000	2010 £000
Wages and salaries	1,318	1,275
Social security costs	164	154
Other pension costs	89	64
Equity settled share-based payments	5	107
	1,576	1,600

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

3 Administrative Expenses continued

Share Award Schemes

Details of the Company Share Option Plan and Long Term Incentive Plan are given in the Remuneration Report. These schemes have resulted in no material charge to the Income Statement in the year.

4 Net Other Income/(Expense)

	2011 £000	2010 £000
Other income	210	48
Other expenses	(170)	(88)
	40	(40)

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

In the prior year, other income related to sundry amounts charged to tenants in connection with variations to leases and income from property management services. Other expenses relate to fees incurred on aborted property purchases, aborted property sales and costs incurred in connection with property management services.

5 Net Financing Costs

	2011 £000	2010 £000
Interest receivable	4	7
Financing income	4	7
Bank loan interest	(7,290)	(7,167)
Amortisation of loan arrangement fees	(145)	(130)
Head rents treated as finance leases	(55)	(56)
Financing expenses excluding fair value movements	(7,490)	(7,353)
Fair value losses on derivative financial instruments (note 17)	(131)	(3,789)
Financing expenses	(7,621)	(11,142)
Net financing costs	(7,617)	(11,135)

6 Taxation

	2011 £000	2010 £000
Current tax		
Corporation tax charged at 27% (2010: 28%)	–	–
Total current tax	–	–
Deferred tax charge		
Origination and reversal of temporary differences	–	–
Total tax charge in the Income Statement	–	–

Reconciliation of Effective Tax Rate

	2011 £000	2010 £000
(Loss)/profit before tax	(710)	1,815
Corporation tax in the UK of 27% (2010: 28%)	(192)	508
Tax relief available from REIT status	(366)	(1,326)
Effects of:		
Revaluation deficit and other non-deductible items	72	314
Deferred tax asset not recognised	486	504
	–	–

Factors that may affect future current and total tax charges

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively. This would reduce the Company's future current tax charge accordingly.

Notes to the Financial Statements continued

for the year ended 30 September 2011

6 Taxation continued

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.

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

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.

7 Property, Plant and Equipment

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 1 October 2009	166	35	63	264
Additions	–	3	48	51
Disposals	–	–	(50)	(50)
At 30 September 2010	166	38	61	265
Additions	–	–	10	10
At 30 September 2011	**166**	**38**	**71**	**275**
Depreciation				
At 1 October 2009	25	11	48	84
Charge for year	17	4	17	38
Disposals	–	–	(46)	(46)
At 30 September 2010	42	15	19	76
Charge for year	17	4	17	38
At 30 September 2011	**59**	**19**	**36**	**114**
Net book value				
At 30 September 2011	**107**	**19**	**35**	**161**
At 30 September 2010	124	23	42	189
At 30 September 2009	141	24	15	180

8 Investment Properties

	Leasehold Investment Properties £000	Freehold Investment Properties £000	Total £000
At 1 October 2009	35,105	139,051	174,156
Additions	1,182	19,359	20,541
Disposals	(594)	(2,691)	(3,285)
Fair value adjustments	878	1,789	2,667
At 30 September 2010	36,571	157,508	194,079
Additions	951	4,165	5,116
Disposals	(768)	(4,473)	(5,241)
Fair value adjustments	(1,682)	(2,161)	(3,843)
At 30 September 2011	**35,072**	**155,039**	**190,111**

8 Investment Properties continued

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

The investment properties have all been revalued to their fair value at 30 September 2011.

At the half year and year end, all properties acquired in those six months, together with a sample selected by the valuers of 25% of the portfolio, at the half year and at the year end have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

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

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

	2011 £000	2010 £000
Portfolio valuation	189,189	192,873
Head leases treated as investment properties held under finance leases per IAS 17	922	1,206
Total per Balance Sheet	190,111	194,079

9 Investments in jointly controlled entities

The Group has the following investments in jointly controlled entities:

	2011		2010	
	Country	Ownership	Country	Ownership
Local Parade Investments LLP	United Kingdom	20%	–	–
Gracechurch Commercial Investments Limited	United Kingdom	50%	–	–

During the year, the Group entered into two joint venture arrangements. On 26 November 2010 an agreement was entered into with Local Parade Investments LLP, a newly incorporated entity. The initial investment made was £20. The principal activity of the entity is the acquisition and management of retail parades.

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

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

No investments in joint ventures were held by the Group at 30 September 2010.

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

	£000
Non-current assets	4,351
Current assets	333
Non-current liabilities	(2,594)
Current liabilities	(267)
	1,823
Represented by:	
Capital	500
Loans	1,378
Shares of results, net of tax	(55)
Group's share of net assets	1,823

Notes to the Financial Statements continued

for the year ended 30 September 2011

9 Investments in jointly controlled entities continued

	£000
Net rental income	53
Property expenses	(13)
Administrative expenses	(87)
Change in fair value of properties	37
Net interest payable	(32)
Movement in fair value of financial derivatives	(13)
Group's share of results, net of tax	(55)

10 Trade and Other Receivables

	2011 £000	2010 £000
Trade receivables	2,258	2,883
Other receivables	544	696
Prepayments	971	758
	3,773	4,337

11 Cash

	2011 £000	2010 £000
Cash in the Statement of Cash Flows	4,461	6,120

Included in bank balances are amounts held pending the next interest payment due in October 2011. 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 £2,817,882 (2010: £2,366,604) with accruals for interest due of £1,256,390 (2010: £1,385,773).

12 Interest Bearing Loans and Borrowings

	2011 £000	2010 £000
Non-current liabilities		
Secured bank loans	131,329	132,529
Loan arrangement fees	(709)	(838)
	130,620	131,691
Current liabilities		
Current portion of secured bank loans	–	–

All bank borrowings are secured by fixed charges over certain of the Group's property assets and floating charges over the companies which own the assets charged. Each loan is repayable in one instalment in 2016.

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

13 Trade and Other Payables

	2011 £000	2010 £000
Trade payables	868	433
Other taxation and social security	422	292
Other payables	1,103	1,006
Accruals and deferred income	3,296	3,330
	5,689	5,061

Other payables include rent deposits held in respect of commercial tenants of £850,000 (2010: £854,000).

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 2009	7,214	(6,190)	1,024
Additions	1,489	(1,306)	183
Disposals	(101)	100	(1)
(Payments)/charge	(56)	56	–
At 30 September 2010	8,546	(7,340)	1,206
Disposals	(1,572)	1,288	(284)
(Payments)/charge	(55)	55	–
At 30 September 2011	**6,919**	**(5,997)**	**922**

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

Share Capital

	2011 Ordinary 20p Shares		2010 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Investment in Own Shares

At the year end, 9,164,017 shares were held in treasury (2010: 9,164,017). The number of shares held by the EBT at the year end was 1,114,089 (2010: 1,123,339). During the year the EBT transferred 9,250 shares to employees on the vesting of awards under the Long Term Incentive Plan.

Reserves

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

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 675,000 Ordinary 20p Shares.

Dividends

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

Date paid	Dividend per share	Total payment £000	Classification of dividend
30 June 2011	1.9 pence	1,546	PID
30 December 2010	1.9 pence	1,546	PID
30 June 2010	1.7 pence	1,384	PID
31 December 2009	1.8 pence	1,465	PID

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

A dividend of 2.1 pence will be paid by 31 December 2011 as a non-PID.

Notes to the Financial Statements continued

for the year ended 30 September 2011

15 Capital and Reserves continued

Calculation of Net Asset Value Per Share (NAV)

	2011 £000	2010 £000
Net assets	53,840	57,640
Fair value of derivative financial instruments (see note 17)	9,258	9,127
Adjusted net assets	63,098	66,767

	2011 Number 000	2010 Number 000
Allotted, called up and fully paid shares	91,670	91,670
Treasury shares	(9,164)	(9,164)
Number of shares	82,506	82,506
NAV per share	65p	70p
Adjusted NAV per share	76p	81p

16 Earnings Per Share

Basic Earnings Per Share

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

(Loss)/Profit Attributable to Ordinary Shares

	2011 £000	2010 £000
(Loss)/Profit for the year	(710)	1,815

Weighted Average Number of Ordinary Shares

	2011 Number 000	2010 Number 000
Issued Ordinary Shares at 1 October 2010	91,670	91,670
Shares held by EBT	(1,114)	(1,123)
Treasury shares	(9,164)	(9,164)
Dilutive effect of share options	(28)	–
Weighted average number of Ordinary Shares at 30 September 2011	81,364	81,383

Diluted Earnings Per Share

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

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 Balance Sheet as follows:

	Fair Value 2009 £000	Movements in Income Statement £000	Fair Value 2010 £000	Movements in Income Statement £000	Fair Value 2011 £000
Non-current liabilities	(2,976)	(3,770)	(6,746)	**(518)**	**(7,264)**
Current liabilities	(2,362)	(19)	(2,381)	**387**	**(1,994)**
Fair value	(5,338)		(9,127)		**(9,258)**
Amount charged to Income Statement		(3,789)		**(131)**	

At 30 September 2011 and 30 September 2010 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 Payable on Fixed Leg of Swap %	Fair Value 2010 £000	Movements in Income Statement £000	Fair Value 2011 £000
30 April 2016	33,000	5.06–5.4476	(4,179)	**1,833**	**(2,346)**
31 January 2017	23,578	5.4476	(4,948)	**(1,964)**	**(6,912)**
30 September 2011	56,578		(9,127)	**(131)**	**(9,258)**

The interest rate receivable on each swap is LIBOR. The notional value of the £23,578,000 swap amortises at a rate of £200,000 per quarter.

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

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

Notes to the Financial Statements continued

for the year ended 30 September 2011

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 23 to 29, this responsibility has been assigned to the executive directors with support and feedback from the Audit Committee. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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

Capital Management Risk

The Group's capital consists of long-term borrowings, cash and equity attributable to the shareholders. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board regularly reviews the Group's capital structure, cost of capital, gearing levels and other specific measures. From time to time, the Company purchases its own shares when the Board considers that this course of action would enhance the value of the Group for shareholders. The Group has a policy of paying 100% of recurring profits as a dividend each year. 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, 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 2011, 96% (2010: 95%) of the Group's debt was fixed or protected, as shown below.

	At 30 September 2011				At 30 September 2010			
	Interest bearing loans £000	Fixed rate loans £000	Notional value of swaps £000	Loans not protected by swaps £000	Interest bearing loans £000	Fixed rate loans £000	Notional value of swaps £000	Loans not protected by swaps £000
Fixed rate loan	69,229	69,229	–	–	69,229	69,229	–	–
Variable rate loan	62,100	–	56,578	5,522	63,300	–	57,378	5,922
	131,329	69,229	56,578	5,522	132,529	69,229	57,378	5,922

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

Sensitivity Analysis

IFRS 7 requires an illustration of the impact on the Group's financial performance of changes in interest rates. The following sensitivity analysis has been prepared in accordance with the Group's existing accounting policies and considers the impact on the Income Statement and on equity of an increase of 100 basis points (1%) in interest rates. As interest rates were below 1% in the current and previous year, it has not been possible to consider the impact of a decrease of 100 basis points on interest income and expense as it would result in a negative rate of interest. Therefore, the impact of a fall in interest rates has been restricted to 0%, a fall of 0.8328% (2010: 0.7452%). It has been possible to consider the impact of a 1% change in rates on the fair value of derivatives as the contracted rates are greater than 1%. All other variables remain the same and any consequential tax impact is excluded. The analysis assumes that changes in market interest rates affect the interest income and interest expense of derivative financial instruments. Changes in the fair value of derivative financial instruments have been estimated by discounting future cash flows at appropriate market rates prevailing at each year end.

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

	2011				2010			
	Impact on income		Impact on equity		Impact on income		Impact on equity	
	+ £000	- £000	+ £000	- £000	+ £000	- £000	+ £000	- £000
Impact on interest income and expense	37	69	37	69	39	9	39	9
Impact on fair value of derivatives	2,570	2,570	2,570	2,570	3,138	3,138	3,138	3,138

18 Financial Instruments and Risk Management continued

Credit Risk

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

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The Group has over 2,000 tenants in over 645 properties. There is no significant concentration of credit risk due to the large number of small balances owed by a wide range of tenants who operate across all retail sectors. Geographically there is no concentration of credit risk in any one area of the UK. An analysis of the business by region, user type and tenant grade is given on pages 4 and 5. The level of arrears is monitored monthly by the Group and more frequently on a tenant by tenant basis by the asset managers.

Cash, Cash Equivalents and Derivative Financial Instruments

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

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

30 September 2011

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

30 September 2010

	At Fair Value £000	Available For Sale £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Investments in jointly controlled entities	–	–	–	–	–
Cash and cash equivalents	–	6,120	–	6,120	6,120
Trade receivables	–	–	2,883	2,883	2,883
Other receivables	–	–	696	696	696
	–	6,120	3,579	9,699	9,699

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

The ageing of trade receivables are as follows:

	2011 Total £000	2011 Impairment £000	2011 After Impairment £000	2010 Total £000	2010 Impairment £000	2010 After Impairment £000
Not yet due	593	–	593	790	–	790
Past due by one to 30 days	939	(18)	921	1,330	(11)	1,319
Past due by 30-60 days	384	(22)	362	221	(5)	216
Past due by 60-90 days	52	(31)	21	108	(3)	105
Past due by 90 days	832	(471)	361	927	(474)	453
	2,800	(542)	2,258	3,376	(493)	2,883

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

Other receivables at 30 September 2011 and 30 September 2010 were not past due.

Notes to the Financial Statements continued

for the year ended 30 September 2011

18 Financial Instruments and Risk Management continued

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

	2011 £000	2010 £000
Balance at 1 October 2010	493	397
Impairment loss recognised	807	918
Trade receivables written off	(759)	(822)
Balance at 30 September 2011	541	493

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 2011

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

30 September 2010

	At Fair Value £000	At Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Interest bearing loans and liabilities	–	131,691	131,691	142,779
Finance lease liabilities	–	1,206	1,206	1,206
Derivative financial instruments	9,127	–	9,127	9,127
Trade payables	–	433	433	433
Other payables	–	948	948	948
Accruals	–	1,988	1,988	1,988
	9,127	136,266	145,393	156,481

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

The fair value of the fixed rate element of the interest bearing loan disclosed above has been valued by JC Rathbone Associates Limited, financial risk consultants, using a discounted cash flow model and published market information.

18 Financial Instruments and Risk Management continued

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

	2011 £000	2010 £000
Expiring after more than five years		
Bank loans – term loan facility	14,500	14,500
Bank loans – revolving credit facility	31,100	29,900
	45,600	44,400

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

30 September 2011

	Carrying Value £000	Contractual Cash Flows £000	Within One Year £000	One to Two Years £000	Two to Three Years £000	Three to Four Years £000	Four to Five Years £000	Over Five Years £000
Interest bearing loans and borrowings	130,620	166,499	7,286	7,286	7,286	7,286	67,956	69,399
Finance lease liabilities	922	6,919	55	55	55	55	55	6,644
Derivative financial instruments	9,258	9,258	1,994	1,991	1,926	1,760	1,415	172
Trade payables	868	868	868	–	–	–	–	–
Other payables	874	874	874	–	–	–	–	–
Accruals	1,868	1,868	1,868	–	–	–	–	–
	144,410	186,286	12,945	9,332	9,267	9,101	69,426	76,215

30 September 2010

	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	131,691	174,895	7,270	7,270	7,270	7,270	7,270	138,545
Finance lease liabilities	1,206	8,546	61	61	61	61	61	8,241
Derivative financial instruments	9,127	9,127	2,381	2,113	1,660	1,282	966	725
Trade payables	433	433	433	–	–	–	–	–
Other payables	948	948	948	–	–	–	–	–
Accruals	1,988	1,988	1,988	–	–	–	–	–
	145,393	195,937	13,081	9,444	8,991	8,613	8,297	147,511

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

Notes to the Financial Statements continued

for the year ended 30 September 2011

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	
	2011	2010	2011	2010
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	96	96	–	6
One to two years	96	96	–	–
Two to five years	96	96	–	–
Over five years	312	408	–	–
	600	696	–	6

b) As Lessor

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

	2011	2010
	£000	£000
Operating leases which expire:		
Within one year	3,427	2,495
One to two years	1,370	1,530
Two to five years	4,096	4,300
Over five years	7,345	8,087
	16,238	16,412

20 Capital Commitments

At 30 September 2011 the Group had contracted capital expenditure for which no provision has been made in these financial statements of £293,000 (2010: £1,202,000).

21 Related Parties

Identity of Related Parties

During the period a property was sold at its market value of £1,620,000 to the newly incorporated joint venture entity, Local Parade Investments LLP. There have been no transactions with related parties which have materially affected the financial position or performance of the Group during the period nor have there been any changes in related party transactions which could have a material effect on the financial position or performance of the Company during the first six months of the current financial year.

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 30 to 33.

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

22 Group Entities

Subsidiaries

	Country of Incorporation	Ownership Interest* 2011	2010
NOS Limited	United Kingdom	100%	100%
NOS 2 Limited	United Kingdom	100%	100%
NOS 3 Limited	United Kingdom	100%	100%
NOS 4 Limited	United Kingdom	100%	100%
NOS 5 Limited	United Kingdom	100%	100%
NOS 6 Limited	United Kingdom	100%	100%
Palladium Investments Limited	United Kingdom	100%	100%
NOS 8 Limited	United Kingdom	100%	100%
Gilfin Property Holdings Limited	United Kingdom	100%	100%
LSR Asset Management Limited	United Kingdom	100%	100%
NOS Residential Limited	United Kingdom	100%	100%
LSR Asset Services Limited	United Kingdom	100%	–

Jointly controlled entities

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

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

Company Balance Sheet

as at 30 September 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Property, plant and equipment	C5		161		189
Investments	C6		130,886		134,829
			131,047		135,018
Current assets					
Debtors	C7	6,032		5,138	
Cash		233		30	
		6,265		5,168	
Creditors: Amounts falling due within one year	C8	(39,838)		(34,058)	
Net current liabilities			(33,573)		(28,890)
Total assets less current liabilities			97,474		106,128
Creditors: Amounts falling due after one year			–		–
Net assets			97,474		106,128
Capital and reserves					
Share capital	C9		18,334		18,334
Reserves	C9		3,742		3,742
Capital redemption reserve	C9		1,764		1,764
Profit and loss account	C9		73,634		82,288
Shareholders' funds			97,474		106,128

These financial statements were approved by the Board of directors on 14 December 2011 and were signed on its behalf by:

M E Riley
Joint CEO

N J Gregory
Joint CEO

The registered number of the Company is 05304743.

Notes to the Company Financial Statements

for the year ended 30 September 2011

C1 Accounting Policies

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

Basis of Preparation

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

Cash Flow Statement

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

Related Party Transactions

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

Financial Instruments

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

Investments

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

Tangible Fixed Assets

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

Depreciation is charged to the profit and loss account on the following 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 both schemes were measured using a Black–Scholes model.

Notes to the Financial Statements continued

for the year ended 30 September 2011

C1 Accounting Policies continued

Employee Benefit Trust

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

Ordinary Share Capital

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

Shares which have been repurchased are classified as treasury shares and shown in retained earnings. They are recognised at the trade date for the amount of consideration paid, together with directly attributable costs. This is presented as a deduction from total equity. Shares held by the Employee Benefit Trust are treated as being those of the Company.

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

Loss for the Financial Year

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £5,564,000 (2010: £19,803,000).

C2 Remuneration of Directors

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

All directors of the Company are directors of the Group.

C3 Remuneration of Auditors

The detailed information concerning Auditors' remuneration is shown in note 3 to the Group financial statements.

C4 Staff Numbers, Costs and Share Option Schemes

The detailed information concerning staff numbers, costs and share option schemes is shown in note 3 to the Group financial statements.

C5 Tangible Fixed Assets

	Leasehold Improvements £000	Fixtures and Fittings £000	Computer Equipment £000	Total £000
Cost				
At 30 September 2010	166	38	61	265
Additions	–	–	10	10
At 30 September 2011	**166**	**38**	**71**	**275**
Accumulated depreciation				
At 30 September 2010	42	15	19	76
Charge for year	17	4	17	38
At 30 September 2011	**59**	**19**	**36**	**114**
Net book value				
At 30 September 2011	**107**	**19**	**35**	**161**
At 30 September 2010	124	23	42	189

C6 Fixed Asset Investments

	Shares in Group Undertakings £000	Total £000
Cost		
At 1 October 2010	155,355	155,355
Additions	–	–
At 30 September 2011	**155,355**	**155,355**
Provisions		
At 1 October 2010	20,526	20,526
Impairment charge for year	3,943	3,943
At 30 September 2011	**24,469**	**24,469**
Net book value		
At 30 September 2011	**130,886**	**130,886**
At 30 September 2010	134,829	134,829

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

LSR Asset Services Limited, one share of £1 which represents a 100% holding; and

LSR Investement Services Limited, one share of £1 which represents a 100% holding.

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

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

Subsidiary undertaking	Nature of Business	Ownership Interest*
NOS Limited	Dormant	100%
NOS 2 Limited	Property investment	100%
NOS 3 Limited	Property investment	100%
NOS 4 Limited	Property investment	100%
NOS 5 Limited	Property investment	100%
NOS 6 Limited	Property investment	100%
Palladium Investments Limited	Property investment	100%
NOS 8 Limited	Property investment	100%
Gilfin Property Holdings Limited	Property investment	100%
LSR Asset Management Limited	Property management	100%
NOS Residential Limited	Property investment	100%
LSR Asset Services Limited	Property management	100%
LSR Investment Services Limited	Dormant	100%

* All interests are in Ordinary Shares.

All of the above companies are incorporated in Great Britain.

Notes to the Company Financial Statements continued

for the year ended 30 September 2011

C7 Debtors

	2011 £000	2010 £000
Amounts owed by Group undertakings	**5,930**	5,060
Other debtors	**7**	6
Prepayments	**95**	72
	6,032	5,138

C8 Creditors

	2011 £000	2010 £000
Trade creditors	**68**	20
Amounts owed to Group undertakings	**39,380**	33,491
Other taxation and social security	**38**	147
Other creditors	**–**	60
Accruals	**352**	340
	39,838	34,058

C9 Reconciliation of Shareholders' Funds

Share Capital

	2011 Ordinary 20p Shares		2010 Ordinary 20p Shares	
	Number 000	Amount £000	Number 000	Amount £000
Allotted, called up and fully paid	**91,670**	**18,334**	91,670	18,334

Reserves

	Reserves £000	Capital Redemption Reserve £000	Profit and Loss Account £000	Total £000
At 1 October 2009	3,742	1,764	104,832	110,338
Dividend	–	–	(2,848)	(2,848)
Share-based payments	–	–	107	107
Loss for the financial year	–	–	(19,803)	(19,803)
At 1 October 2010	3,742	1,764	82,288	87,794
Dividend	–	–	(3,093)	(3,093)
Share-based payments	–	–	3	3
Loss for the financial year	–	–	(5,564)	(5,564)
At 30 September 2011	**3,742**	**1,764**	**73,634**	**79,140**

Investment in Own Shares

At 30 September 2011, 9,164,017 shares were held in treasury (2010: 9,164,017). No shares were purchased by the company in the current or previous years.

Reserves

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

Capital Redemption Reserve

The capital redemption reserve arose in prior years on the cancellation of 675,000 Ordinary 20p Shares.

Dividends

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

Date paid	Dividend per share	Total payment £000	Classification of dividend
30 June 2011	1.9 pence	1,546	PID
30 December 2010	1.9 pence	1,546	PID
30 June 2010	1.7 pence	1,384	PID
31 December 2009	1.8 pence	1,465	PID

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

A dividend of 2.1 pence will be paid by 31 December 2011 as a non-PID.

Glossary of Terms

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

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

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

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

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

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

Interest cover
Interest cover 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.

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

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

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

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

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

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