



**2 December 2010**

**The Local Shopping REIT plc**  
(“LSR” or the “Company” or the “Group”)

**UNAUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2010**

The Local Shopping REIT plc (LSE: LSR), a real estate investment trust that provides investors with access to a diversified portfolio of local shopping assets across the UK, today announces unaudited results for the year ended 30 September 2010.

**Financial Highlights:**

- Market value of portfolio increased 10.6% to £192.9 million (30 September 2009: £174.4 million). Values up 3.5% on a like-for-like basis over the full year
- Recurring profit of £2.9 million or 3.6 pence per share (30 September 2009: £2.9 million or 3.5 pence per share)
- IFRS profit for the year £1.8 million (30 September 2009: loss of £31.0 million)
- Net Asset Value (NAV) of £57.6 million or 70 pence per share (30 September 2009: £58.6 million or 71 pence per share)
- Adjusted NAV of £66.8 million or 81 pence per share excluding liabilities arising from derivative financial instruments (30 September 2009: £63.9 million or 77 pence per share)
- Annual rent roll increased 5.6% to £16.4 million (30 September 2009: £15.5 million)
- Prudent debt and financial management:
  - Total net debt of £131.7 million, reflecting an LTV of 67.3%, with no ongoing loan to value default provisions on the fully drawn facilities and low interest cover tests across all loans
  - £44.4 million of undrawn facilities as at 30 September 2010, comprising a term loan, of which £14.5 million is undrawn, and a revolving credit facility, of which £29.9 million is undrawn
  - Debt free properties valued at £30.1 million
  - No refinancing due until 2016
- Dividend of 1.9 pence per share to be paid on 31 December 2010 as a PID to shareholders on the register on 10 December 2010. The ex-dividend date will be 8 December 2010.

## **Operational highlights:**

- Joint Venture established with Pramerica Real Estate Investors after the year end, to invest £100 million in the UK neighbourhood / convenience retail sector. Pramerica has committed to provide 80% of the equity (£30 million) and LSR will provide the remaining 20% (£7.5 million). LSR will act as asset manager and will be responsible for sourcing investments, for which it will receive related fees
- Good lettings progress made, resulting in a stable void rate at 11.3% (30 September 2009: 11.4%):
  - 107 new lettings secured generating an annual rental income of £983,534 in the year to 30 September 2010 (106 units were let at £1,127,904 per annum during the year ended 30 September 2009). Of the total, 63 were let in the second half, producing rental income of £589,770 per annum
  - 198 rent reviews generated a rental increase of £143,449 per annum, an average uplift of 5.6% (7.9% above Market Rent)
  - 45 lease renewals generated a rental increase of £16,119 per annum, an average uplift of 4.8% (5.2% above Market Rent)
  - Rental deposits increased to approximately £940,000, or 23% of our quarterly rent roll (30 September 2009: £900,000)
  - 19 recently redeveloped flats let, generating a combined annual income of £120,970
- Active acquisitions and disposals programme underway:
  - 35 properties acquired for £16.9 million at an average yield of 7.89%, 20 of which were purchased during the second half for £10.8 million at an average yield of 7.85%
  - Successful sale of 14 ex-growth properties for a total of £4.7 million at an average yield of 6.85%, four of which were sold during the second half for £2.3 million (March 2010 value: £2.2 million)
- Ten change of use applications approved and planning consent secured for 50 flats, a reconfiguration of four retail units and consent for a 4,600 sq ft convenience store
- Recognised expertise in managing a diverse portfolio of smaller assets has led to ongoing progress in securing asset management opportunities with banks:
  - Appointed to manage a small mixed-use portfolio in the North West at the request of a large UK bank
  - Legal agreement signed with another UK lender to manage the properties acquired when they take back control from their borrowers
  - Discussions ongoing with a number of lenders about assisting them with distressed property situations.

## **Grahame Whateley, Chairman of The Local Shopping REIT plc, commented:**

“Despite challenging trading conditions, our business model, with its diversified tenant base, continues to perform well, with stable occupancy and a resilient lettings market. In the investment market, the potential for further near term yield compression looks limited. It therefore seems likely that rental growth and added value via active asset management will be the drivers of any valuation gains.

“As a result of our focus on maximising the value of our assets and recycling our ex-growth stock, the Company continues to maintain a sound financial position. We continue to believe that the next few years will provide opportunities to generate considerable returns from investing in distressed situations.”

**Mike Riley, Joint Chief Executive Officer, said:**

“Our nationwide coverage, extensive network of local agents and specialist asset management skills provide us with a unique capability to manage smaller properties throughout the UK. We have made encouraging progress over the year in securing mandates to assist two UK lenders with this.

“In addition, our cash, uncharged properties and undrawn loan facilities, together with our newly established JV with Pramerica Real Estate Investors gives us the flexibility and firepower to take advantage of any accretive buying opportunities that emerge where lenders decide to sell.”

**Nick Gregory, Joint Chief Executive Officer, added:**

“Trading conditions remain tough for our tenants, but their entrepreneurial drive and ability to be flexible in adapting their business plans has allowed them to react to the challenging retail environment. As a result, our diverse tenant base of smaller, independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend.

“Our highly active approach to managing the portfolio has kept our void rate stable over the past 18 months. During the coming year, it is our ambition to grow portfolio income, building upon the 0.2% increase in like-for-like rents achieved since 31 March 2010 as a result of successful rent reviews, lease renewals and a reduction in the void rate.”

**Analyst presentation**

Local Shopping REIT will be holding a presentation for analysts and investors today at 09.30 held at J.P. Morgan Cazenove, 20 Moorgate, London, EC2R 6DA.

The meeting can be accessed through the following dial-in facility and a copy of the presentation slides will be available on Local Shopping REIT’s website, [www.localshoppingreit.co.uk/](http://www.localshoppingreit.co.uk/).

Title:	Local Shopping REIT Full Year Results
Participant Dial in Number:	+44 (0) 1452 569 393
The Conference ID number:	29229544

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## **CHAIRMAN'S STATEMENT**

I am pleased to announce the Company's full year results for the 12 month period to 30 September 2010.

### **Introduction**

Against a difficult and uncertain economic backdrop, the Company has performed well over the year. Our programme of active asset management has delivered nearly £170,000 per annum of additional income through successful rent reviews, lease renewals and surrender and re-lettings. The conversion of redundant space above a number of our shops into 20 flats has added a further £120,000 to the annual rent roll and over the year we have secured planning consent for a further 50 such conversions. Our hands-on approach to asset management and flexible leasing policy has resulted in a stable void rate over the year. Additionally, a firm but fair approach to credit control has led to a £125,000 reduction in charges for bad debts. Through our national network of agents, we have made 35 accretive acquisitions at an average yield of 7.89% providing us with the potential for future growth. At the same time, in a difficult market, we have sold 14 ex-growth properties at an average yield of 6.85%, substantially below the prevailing yield on the portfolio.

As mentioned, however, market conditions during the period under review have continued to be challenging. Following the change of Government in May, a substantial deficit reduction programme has been put in place. The full economic impact of the cuts has yet to be felt and the ability of the economy to grow through the upcoming fiscal squeeze will have a major bearing on occupier markets in the near term. 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. We believe the level of interest rates is broadly supportive of current valuations, with private investors continuing to invest in smaller lot sized properties in order to satisfy their income requirements. However, there is little depth to investor demand and, with debt finance still scarce and expensive, the potential for further near term yield compression looks limited.

Our nationwide coverage, extensive network of local agents and 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 other businesses 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 began to manage a small, mixed portfolio of properties in the north west on behalf of a large UK bank, and have entered into an agreement with another bank to manage the smaller investment properties it will acquire as it begins to take back control of assets from distressed borrowers. We have strong relationships with many of the UK lenders and hope to build on this progress over the coming year to generate further income for the business.

Following the year end, we were also delighted to have entered a JV with Pramerica Real Estate Investors ("Pramerica"), as announced on 29 November 2010. With gearing, the JV will have around

£100 million to invest in the UK neighbourhood / convenience retail sector, targeting retail parades and precincts located in suburban and neighbourhood locations with values between £1.25 million and £7 million, lot sizes bigger than the Company's traditional asset base. Pramerica has committed to provide 80% of the equity (£30 million) and LSR will provide the remaining 20% (£7.5 million). LSR will act as asset manager and will be responsible for sourcing investments, for which it will receive 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 look forward to working with Pramerica on this exciting project, which we believe will create strong returns for our shareholders and for them.

## **Dividend**

I am pleased to announce a dividend for the second half of 1.9 pence per share (2009: 1.8 pence per share), which is in line with our policy to pay out 100% of recurring profits earned over the year. The dividend will be paid on 31 December 2010, as a PID to shareholders on the register on 10 December 2010. This will take the total dividend paid for the year to 3.6 pence per share (2009: 3.5 pence per share).

## **Outlook**

Despite challenging trading conditions, our business model, with its diversified tenant base, continues to perform well, with stable occupancy and a resilient lettings market. In the investment market, the potential for further near term yield compression looks limited. It therefore seems likely that rental growth and added value via active asset management will be the drivers of any valuation gains.

As a result of our focus on maximising the value of our assets and recycling our ex-growth stock, the Company continues to maintain a sound financial position. We continue to believe that the next few years will provide opportunities to generate considerable returns from investing in distressed situations. We have already built up strong relationships with a number of lenders and are actively managing distressed situations for two of them. In addition, our recently announced Joint Venture with Pramerica provides us with further financial firepower to exploit opportunities as they arise. This in turn will enhance our ability to deliver on our goal of creating shareholder value in the future.

**Grahame Whateley**

**Chairman**

**2 December 2010**

## **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 2010.

### **Results**

During the year, the Company made a recurring profit of £2.9 million (3.6 pence per share), the calculation of which is provided in the Finance Director's Review below. The recurring profit during the second half of the year was £1.5 million, a small improvement on the £1.4 million during the first half, but, encouragingly, substantially above the £1.1 million earned during the same period in the previous financial year.

During the 12 month period, we benefitted from a rise in the value of the portfolio, mirroring the movement in the wider property market. However, the continuing fall in medium term interest rates, between 30 September 2009 and 30 September 2010, has resulted in a further loss on the fair value of our swap agreements. These factors combined have resulted in an IFRS profit of £1.8 million. We have provided a breakdown of these amounts within the Income Statement to show more clearly the result from the operating business.

### **Revaluation and Net Asset Value**

As at 30 September 2010, the portfolio was revalued at £192.9 million, a rise of £18.5 million from the £174.4 million portfolio valuation at 30 September 2009. On a like-for-like basis the portfolio rose in value by 3.5% over the year.

During the first half of the year, values in the Company's sector rose as private investors continued to chase income. However, as the year progressed, investors in smaller retail assets became more cautious as they tried to assess the economic impact of the new Government's debt reduction measures. As a result, the rebound in prices stalled over the summer months. This settling down of values was reflected in the valuation of our portfolio which, having risen 5.2% in the six months to 31 March 2010, recorded a small 1.6% fall in value over the second half of the year.

Our net asset value per share has fallen slightly to 70 pence per share compared to 71 pence at 30 September 2009. While values have risen over the year, the fall is largely due to the loss on our swap agreements, described above. The adjusted net asset value per share (adjusted for the fair value of the swap agreements) has risen to 81 pence per share compared to 77 pence in 2009.

## Portfolio Performance

Our portfolio was revalued at the year end at £192.9 million, reflecting an equivalent yield (excluding residential element) of 8.88%. It now comprises 655 properties, with 2,075 letting units, and produces annual rental income of £16.4 million.

### Combined Portfolio

Value	£192.9 million
Initial Yield	8.03%
Reversionary Yield	8.76%
Equivalent Yield*	8.88%
Rent pa	£16.4 million
Market Rent pa	£17.9 million

Value Range	No. of Properties	Value £ million	Equivalent Yield*
£0 - £100k	148	11.2	9.38%
£101 - £200k	232	34.1	8.93%
£201 - £500k	170	53.1	8.48%
£501k - £1m	77	50.7	8.96%
£1m - £3m	27	40.7	8.79%
£3m +	1	3.1	7.42%
<b>Total</b>	<b>655</b>	<b>192.9</b>	<b>8.88%</b>

\* excluding residential element

The table above illustrates the range of property values throughout the portfolio. The average property value is £0.294 million and the median is £0.170 million. The residential element of the portfolio has been valued at £17.2 million, based on 85% of vacant possession value. The average value of the residential units in our portfolio remains low at just over £55,000.

On a like-for-like basis, the properties owned throughout the year recorded a rise in value of 3.5%, adjusted to make allowance for properties where LSR sold off portions of the asset, with the equivalent yield (excluding the residential element) moving in 51bps to 8.99%. In our Half Year Results Statement, we noted that there had been recent signs that the run-up in capital values may have been tailing off in response to a rise in supply. A mismatch between the expectations of buyers and sellers over the summer has led to a cooling in the market and, during the second half of the year, values of local shopping properties stabilised. Between 31 March 2010 and 30 September 2010, the portfolio showed a small decrease in value of 1.6%, with the equivalent yield (excluding the residential element) moving out 6bps.

### Like-for-like portfolio – adjusted for part sales

	30 September 2010	30 September 2009	Change
<b>Value</b>	£175.9 million	£170.0 million	+3.51%
<b>Initial Yield</b>	8.05%	8.45%	-0.40bp
<b>Reversionary Yield</b>	8.81%	9.36%	-0.55bp
<b>Equivalent Yield*</b>	8.99%	9.50%	-0.51bp
<b>Rent per annum</b>	£15.1 million	£15.2 million	-0.98%
<b>Market Rent per annum</b>	£16.5 million	£16.9 million	-2.28%

\* excluding residential element

Over the year as a whole, the portfolio market rent has fallen by 2.3% while the passing rent has fallen 1.0% on a like-for-like basis. Encouragingly, however, since 31 March 2010, rents have grown by 0.2% as a result of successful rent reviews and lease renewals and a reduction in the portfolio void rate following a strong letting performance in the second half of the year. Similarly, while the portfolio market rent fell 1.7% during the first half of the year, the decline in market rent reduced to only 0.6% during the second half.

### Investment Market

During the first half of the year, values continued to rise, with private investors, faced with low short term interest rates, continuing to invest in smaller lot sized properties in order to satisfy their income requirements. As the year progressed, as mentioned above, there was an increasing mismatch between the expectations of buyers and sellers, and the supply of properties for sale fell. As a consequence, sales volumes in the July round of commercial auctions were low and, while the auction rooms have been busier since the summer break, it has become clear that the rebound in prices which began in early 2009 has stalled.

While the banking sector needs to carry out a substantial de-leveraging over the next few years, we have seen little evidence to date of large numbers of smaller properties being placed into the market where the borrower is in default. Whilst we foresee an increase in supply from such sales over the next 12 months, we also expect the banks, constrained by their ability to make further loan write-downs, to look for longer term asset management led solutions to the distressed properties and portfolios on their books.

We believe that low interest rates are supportive of current valuation levels but, with bank debt remaining scarce, further near term yield compression in our sector seems unlikely. Increases in valuation will therefore be driven by our ability to grow rents and add value through active asset management. 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.

## **Acquisitions and Sales**

Throughout the year we have adopted a highly selective approach to making acquisitions, concentrating on securing properties with sustainable rents and the potential for growth through fixed or RPI linked rent reviews or active asset management.

During the year, we have acquired 35 properties for a total consideration of £16.9 million, at a blended yield of 7.89%. Of these, 20 were purchased since 31 March 2010 for a total consideration of £10.8 million at a blended yield of 7.85%. Since the year end we have purchased four convenience store investments on long leases with fixed or RPI linked rent reviews let to Tesco and Martin McColl for £1.4 million at a blended yield of 6.95%.

Throughout the year we continued to make solid progress with our stated strategy of selling ex-growth properties. During the year, we sold 14 properties, including one part disposal, for £4.7 million at an average yield of 6.85%, well below the prevailing yield on the portfolio. Four of these, two vacant and two let, were sold during the second half of the year for £2.3 million showing a £0.1 million surplus over the 31 March 2010 valuation. We also sold a flat in Glastonbury for £85,000 against a book value of £67,000.

Since the year end, we have completed the sale of a further two properties for a total of £0.6 million, in line with their September 2010 valuation, and another flat in Glastonbury for £80,000. Over the coming year we intend to sell further ex-growth properties in order to reinvest the proceeds into more interesting opportunities.

## **Occupier Market**

We remain cautious on our outlook for the occupier market, which has yet to fully feel the economic impact of the new Government's substantial deficit reduction programme. Against such a background, trading conditions for retailers remain difficult throughout the UK. However, our tenants, 69.4% of whom are local independent traders, are demonstrating they have the flexibility to deal with these challenging conditions, particularly where their businesses rely on non-discretionary spend. It is well known that the major supermarket groups are expanding rapidly into the local shopping market, with their roll-out of convenience store formats, but within our portfolio we are also seeing a number of other national multiple retailers such as Greggs leasing units in our typical neighbourhood and suburban locations. Despite the difficult economic climate, we believe that our rents remain affordable, which is demonstrated by our continuing success in letting vacant units. Our average shop rent is only £11.27 per sq ft, or £12,129 per annum (£233 per week).

As at 30 September 2010, our overall void rate was 11.3%, down from the 11.4% reported in September 2009 and down 0.6% from the 11.9% reported in March 2010.

## Key Performance Indicator - Void Rate

	<b>30 September 2010</b>	<b>31 July 2010</b>	<b>31 March 2010</b>	<b>31 January 2010</b>	<b>30 September 2009</b>
Vacant – Commercial	8.0%	8.0%	8.2%	8.0%	8.1%
Vacant – Deliberate	2.5%	2.8%	2.7%	2.6%	2.6%
Vacant – Residential	0.8%	0.9%	1.0%	1.3%	0.7%
Total	11.3%	11.7%	11.9%	11.9%	11.4%

Throughout the year the void rate for our commercial properties, at 8.0% at the year end, has been broadly stable. The level of deliberate voids rose during the year as we continued to seek to convert redundant space above our shops into flats. However, towards the end of the period, the deliberate void rate fell back to 2.5% as a number of conversions were completed and the flats subsequently let. We anticipate our deliberate void rate will remain around this level as we continue to seek out opportunities for change of use and to reconfigure units to secure increased rents or improve marketability. Although fluctuating throughout the year in line with our experience in previous years, the residential void at the year end was 0.8%, in line with the 0.7% reported at 30 September 2009. Although a number of our residential tenants rely on housing benefit to pay some or all of their rent, our average residential rent is below £100 per week which will provide us with protection from cuts aimed at reducing the housing benefit budget.

Given the nature of our tenants, the majority of whom are independent traders, bad debts are inevitable. However, we are encouraged that our strong focus throughout the year on credit control has resulted in our bad debts write-offs falling by 12.0% to £918,452, compared with £1,043,247 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 cashflow. However, we also recognise that there may be occasions when it is sensible to let a tenant remain in occupation at a reduced rent in order to mitigate our outgoings, particularly our liability for empty rates, if the local letting market is 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, it is our policy to seek rent deposits of between three to six months. Over the year we have successfully increased the number and value of deposits held as we let units and deal with assignments. As at 30 September 2010, we held deposits totalling approximately £940,000 (30 September 2009: approximately £900,000) or 23% 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

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.

Despite challenging trading conditions, demand for local shops remains resilient. During the year to 30 September 2010, the Company has let 107 vacant commercial units at a total rent of £983,584 per annum (compared to 106 units let at £1,127,904 per annum during the previous year). Encouragingly, 63 of these units were let during the second half of the year at a total rent of £589,770 per annum. Over the full year the units were let, on average, at 4.3% below Market Rent. However, 30 of these new lettings incorporated stepped rent increases, which we have ignored in our comparison. These 30 lettings were secured at an initial rent of £296,884 per annum rising to £369,454 per annum over the first three years of their leases, compared with a Market Rent of £350,750 per annum. The remaining 77 units were let at a 1.4% premium to Market Rent. With our individual tenants typically working off tighter balance sheets, 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 only 69 days.

Current market conditions make it difficult to grow rents at rent review and lease renewal. However, over the year, rent reviews on 198 units increased rental income by a total of £143,449 per annum, reflecting an average uplift of 5.6%, and 7.9% above Market Rent. This was a significant improvement on the £67,989 per annum increase secured in the previous financial year. Lease renewals on 45 units have added a further £16,119 of rental income per annum (an average uplift of 4.8%, and 5.2% above Market Rent) and two lease extensions on flats in Bishop's Stortford and London secured £13,250 in premiums from the tenants. In addition, we have surrendered and re-let seven units, which resulted in an increase in rent of £9,708 per annum (an average uplift of 13.5%, and 1.1% above Market Rent).

In line with our drive to deliver value from the under-used upper parts of our retail properties, or unused adjacent land, we have secured planning consents for 50 flats across the UK, the reconfiguration of four retail units in Bristol and consent to build a new 4,600 sq ft retail unit at Cheveley Park Shopping Centre near Durham. During the year we completed the construction of 20 flats over five separate projects, redeveloping the redundant space above shop units where we had previously secured the necessary planning consent for these conversions. 19 of these flats were subsequently let at a combined rent of £120,970 pa, while the vacant flat is under offer for sale. We plan to continue to carry out similar projects where we can achieve an acceptable rental yield following conversion.

Over the year, we also secured a number of change-of-use consents which make it easier for us to let vacant units: three units were changed from A1 (shops) to A2 (financial), two units were changed from A1 (shops) to A3 (restaurant/café) and five units to A5 (hot food take-away). In addition, we secured planning consent on a vacant retail unit in Dorking for a change-of-use from a restricted A2 consent to A1.

Following the widening of the retail consent, the property was sold to an owner-occupier for £415,000, substantially ahead of its £350,000 valuation prior to the change-of-use being granted.

### **Working With Banks**

A key element of our strategy for growth is the management of distressed assets. During the year we were asked by a large UK bank to manage a small mixed portfolio of properties in the North-West for an asset management fee. Additionally we entered into a legal agreement with another UK lender to manage the smaller investment properties it acquires when it has to take back control of assets from its distressed borrowers. At present we are managing one property under this agreement but have identified further properties which may fall under this arrangement in due course. Our remuneration for this project is based upon an acquisition fee, management fee and profit share on ultimate disposal. We are continuing our discussions 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.

### **Joint Ventures**

A second key element of our strategy is to seek to grow the business through the creation of Joint Ventures. As we recently announced on 29 November 2010, we have entered into a JV agreement with Pramerica Real Estate Investors (“Pramerica”) to invest in retail parades and precincts throughout the UK.

It is intended that the JV will comprise over £37 million in equity which, with gearing, will provide a total of around £100 million to invest in the UK neighbourhood / convenience retail sector. With Pramerica committing to provide 80% of the equity (£30 million) and LSR providing the remaining 20% (£7.5 million), the JV is structured so that LSR and Pramerica act as co-investors and LSR will act as Manager and be responsible for sourcing the investments. Debt finance is being provided by HSBC.

This JV provides us with substantial firepower to invest in assets with significant potential for future rental growth and the opportunity to deliver added value through active asset management. The investment size per transaction will range from £1.25 million to £7 million, lot sizes bigger than the Company’s traditional asset base. The anticipated duration of the JV is five years, with a two year commitment period. It will focus primarily on retail parades and precincts located in suburban and neighbourhood locations where the properties are well placed to support the convenience and “top up” shopping requirements of the surrounding population.

## 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 in achieving rental uplifts of nearly £160,000 per annum from rent reviews and lease renewals over the past year, 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 more interesting opportunities.

Trading conditions remain tough for our tenants, but their entrepreneurial drive and ability to be flexible in adapting their business plans has allowed them to react to the challenging retail environment. As a result, our diverse tenant base of smaller, independent traders continues to perform relatively well, particularly where their trade relies on non-discretionary spend. Our highly active approach to managing the portfolio has kept our void rate stable over the past 18 months. During the coming year it is our ambition to grow portfolio income, building upon the 0.2% increase in like-for-like rents achieved since 31 March 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 but, constrained by their ability to make further loan write-downs, in many cases banks are having to implement longer term solutions to distressed property situations. Our nationwide coverage, extensive network of local agents and specialist asset management skills provide us with a unique capability to manage smaller properties throughout the UK. We have made encouraging progress over the year in securing mandates to assist two UK lenders with this. In addition, our cash, uncharged properties and undrawn loan facilities, together with our newly established JV with Pramerica Real Estate Investors, gives us the flexibility and firepower to take advantage of any accretive buying opportunities that emerge where lenders decide to sell. We believe such distressed situations will provide LSR, whether acting as a manager or investor, with the potential to generate attractive returns for our shareholders over the coming years.

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

- To optimise the value of and income from existing assets
- To use 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.

## **Partnerships**

Our network of national, regional and local agents remains key 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 and future growth.

**Mike Riley & Nick Gregory**  
**Joint Chief Executive Officers**  
**2 December 2010**

## FINANCE DIRECTOR'S REVIEW

This report has been prepared in accordance with International Reporting Standards (IFRS). Several new standards have been adopted in the preparation of the Annual Report this year. The two relevant to the business are IAS 1 (revised) and IFRS 8.

The changes dictated by IAS 1 (revised) relate to the presentation of the primary statements. It includes the replacement of the Statement of Recognised Income and Expense with the Statement of Comprehensive Income and the introduction of a new primary statement known as the Statement of Changes in Equity.

IFRS 8 Operating Segments has also been adopted. However, this has not resulted in any additional information being disclosed in the Annual Report. The Standard requires the reporting of segmental information on the basis of internal reports presented to the Board. The Group currently carries out one operating segment and reports information to the Board on this basis. This is reviewed regularly and should the situation change, the appropriate disclosures will be made.

### Key performance indicators

In addition to the specific measures used to monitor the performance of the property portfolio, which have been described in the Business Review, the following key performance indicators are monitored by the directors to review the performance of the business and to ensure compliance with banking covenants.

	30 September 2010	30 September 2009
Interest cover*	211%	214%
Loan to value (LTV) ratio**	67.3%	66.4%
Adjusted NAV per share***	81p****	77p****
Gearing (net of cash held)	217.8%	188.1%

\*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 2010 (2009: 82,505,853)

\*\*\*\* Adjusted to exclude the fair value of financial derivatives

### Recurring profit

The Group's results from the operating business show an improvement on the previous year and continue to demonstrate the benefits of our unique portfolio with its diversified tenant base and affordable rents.

The recurring profit for the year is £2.94 million (2009: £2.85 million). The calculation of recurring profit remains consistent with prior years and is as follows:

	30 September 2010	30 September 2009
IFRS reported profit/(loss)	1,815	(30,997)
(Gain)/loss on movement in fair value of the portfolio	(2,667)	28,275
Movement in the fair value of the interest rate swaps held	3,789	5,578
Profit on sale of investment properties	(7)	(3)
Loss on disposal of fixed assets	4	-
Recurring profit	2,934	2,853

The Group's dividend policy continues to be the payment of 100% of recurring profits. The recurring profit per share is 3.6p (2009: 3.5p). A dividend has been proposed by the directors of 1.9p (2009: 1.8p) for payment on 31 December 2010 to shareholders on the register at 10 December 2010. This dividend will be paid as a property income distribution ("PID").

An interim dividend of 1.7p per share (2009: 1.7p) was paid as a PID on 30 June 2010, as reported in the Half Year Report to 31 March 2010.

The total dividend for the year will be 3.6p per share (2009: 3.5p). As in previous years, the Employee Benefit Trust will waive its right to a dividend.

Dividends distributed by REIT's are known as PID's or non-PID's. PID's are subject to the deduction of withholding tax at the basic rate of tax (20% for 2010/11). Certain eligible shareholders can claim exemption from the withholding of tax. Should a shareholder be eligible, a form can be obtained from the Company's website ([www.localshoppingreit.co.uk](http://www.localshoppingreit.co.uk)) which should be submitted to the Company's Registrars.

## Results

The Group has recorded an annual IFRS profit for the first time since its listing on the London Stock Exchange.

Rental income has increased during the year, following the purchase of 35 properties and the conversion of otherwise redundant commercial space to residential flats as described in the Business Review. This rental income will replace that lost from sales during 2009 and the earlier part of the 2010 financial year.

Property operating expenses have fallen in the year, mainly as a result of reduced letting costs and lower costs incurred on vacant units. The asset management team have also been able to let more units in-house, using Law Society leases without the need to instruct third party lawyers, thereby reducing the

transaction cost of these lettings. This ability to use Law Society leases and minimise the costs of re-letting is dependent on the term of the lease and annual rent, so this cost can vary depending on the mix of lettings completed. There has also been a reduction in the bad debt charge for the year.

Administrative expenses have continued to be well controlled throughout the year. The increase in these costs result from the rise in the undrawn facility fee agreed when the facility was restructured in 2009. This fee will increase further in the next financial year (as described below).

Interest payable has increased in the year, following the draw-down of debt from the available facilities to fund the purchase of properties. The Group still holds the same interest rate swaps as in the previous year. The fair value of these swaps has continued to fall, resulting in a further interest expense for the year of £3.8 million (2009: £5.6 million). The Group is now under hedged by £6.1 million (2009: over hedged £10.5 million).

### **Net assets**

The net assets of the Group have fallen by £1 million to £57.6 million (2009: £58.6 million) as a result of the continued fall in the fair value of the swaps, although some of this has been mitigated by the increase in the value of the portfolio.

At 30 September 2010, the portfolio was valued at £194.1 million (including the IAS 17 adjustment required in respect of leasehold properties). Over the year the portfolio rose in value by £2.7 million but, at the half year, the increase recorded was £7.3 million so the values have fallen back by £4.6 million in the second half of the year as values have settled. The increase over the year has been recorded in the Income Statement in accordance with IFRS.

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 with relevant experience and professional qualifications.

## Bank debt and facilities

The Group operates using the following facilities:

Loan	Facility £ million	Loan outstanding £ million	Undrawn £ million	LTV covenant	Repayable in one instalment	Termination date
Barclays fixed rate loan	69.2	69.2	-	No	Yes	2016
HSBC fully drawn term loan	47.7	47.7	-	No	Yes	2016
HSBC term loan	25.0	10.5	14.5	Yes	Yes	2016
HSBC revolver facility	35.0	5.1	29.9	Yes	Yes	2016
		<u>132.5</u>	<u>44.4</u>			

As shown above, as at 30 September 2010 the total debt drawn down by the Group is £132.5 million. The facilities available to the Group have remained unchanged throughout the year.

The Group has drawn down £15.6 million from the available HSBC facility 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 applicable to the undrawn facility. The margin charged on the loan is variable dependent on the LTV at each of the loan's quarter dates and ranges from 80 to 120 basis points above LIBOR up to 160 basis points once the LTV exceeds 70%.

The Group continues to hold properties with a total value of £30.1 million 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.

## Taxation

The Group has 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 was de minimis in the year and the Group has available losses to relieve any such profits arising. Therefore, no provision for Corporation Tax has been made.

**Consolidated Income Statement**  
**for the year ended 30 September 2010**

	<i>Note</i>	<b>Year ended 30 September 2010 £000</b>	Year ended 30 September 2009 £000
<b>Gross rental income</b>		<b>15,539</b>	15,319
Property operating expenses		<b>(2,646)</b>	(2,891)
<b>Net rental income</b>		<b>12,893</b>	12,428
Profit on disposal of investment properties		<b>7</b>	3
Loss on disposal of fixed assets		<b>(4)</b>	-
Gain/(loss) from change in fair value of investment properties	5	<b>2,667</b>	(28,275)
Administrative expenses		<b>(2,573)</b>	(2,491)
Net other (expense)/income		<b>(40)</b>	5
<b>Operating profit/(loss) before net financing costs</b>		<b>12,950</b>	(18,330)
Financing income*	2	<b>7</b>	58
Financing expenses*	2	<b>(7,353)</b>	(7,147)
Movement in fair value of financial derivatives	2	<b>(3,789)</b>	(5,578)
<b>Profit/(loss) before tax</b>		<b>1,815</b>	(30,997)
Taxation		-	-
<b>Profit/(loss) for the year attributable to equity holders of the company</b>		<b>1,815</b>	(30,997)
<b>Basic and diluted profit/(loss) per share</b>	3	<b>2.2p</b>	(37.5)p

\* Excluding movement in the fair value of financial derivatives

**Consolidated Statement of Comprehensive Income**  
*for the year ended 30 September 2010*

	<b>Year ended 30 September 2010 £000</b>	Year ended 30 September 2009 £000
Profit/(loss) for the year	<b>1,815</b>	(30,997)
Total comprehensive income for the year	<b>1,815</b>	(30,997)
Attributable to:		
Equity holders of the parent company	<b>1,815</b>	(30,997)

**Consolidated Balance Sheet  
as at 30 September 2010**

	<i>Note</i>	<b>At 30 September 2010 £000</b>	At 30 September 2009 £000
<b>Non current assets</b>			
Property, plant and equipment		189	180
Investment properties	5	<b>194,079</b>	174,156
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>194,268</b>	174,336
		<hr/>	<hr/>
<b>Current assets</b>			
Trade and other receivables	6	4,337	4,646
Investment properties held for sale	5	-	1,300
Cash		<b>6,120</b>	5,949
		<hr/>	<hr/>
<b>Total current assets</b>		<b>10,457</b>	11,895
		<hr/>	<hr/>
<b>Total assets</b>		<b>204,725</b>	186,231
		<hr/> <hr/>	<hr/> <hr/>
<b>Non current liabilities</b>			
Interest bearing loans and borrowings	7	<b>(131,691)</b>	(116,133)
Finance lease liabilities		<b>(1,206)</b>	(1,024)
Derivative financial instruments	10	<b>(6,746)</b>	(2,976)
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>(139,643)</b>	(120,133)
		<hr/>	<hr/>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	7	-	-
Trade and other payables	8	<b>(5,061)</b>	(5,170)
Derivative financial instruments	10	<b>(2,381)</b>	(2,362)
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>(7,442)</b>	(7,532)
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>(147,085)</b>	(127,665)
		<hr/> <hr/>	<hr/> <hr/>
<b>Net assets</b>		<b>57,640</b>	58,566
		<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>			
Issued capital	9	<b>18,334</b>	18,334
Reserves		<b>3,773</b>	3,773
Capital redemption reserve		<b>1,764</b>	1,764
Retained earnings		<b>33,769</b>	34,695
		<hr/>	<hr/>
<b>Total attributable to equity holders of the Company</b>		<b>57,640</b>	58,566
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated Statement of Cash Flows  
for the year ended 30 September 2010**

	Year ended 30 September 2010	Year ended 30 September 2009
	£000	£000
<b>Operating activities</b>		
Profit/(loss) for the year	1,815	(30,997)
Adjustments for:		
(Gain)/loss from change in fair value of investment properties	(2,667)	28,275
Net financing costs	11,135	12,667
Profit on disposal of investment properties	(7)	(3)
Loss on disposal of fixed assets	4	-
Payment of finance leases	116	116
Depreciation	38	41
Employee share options	107	176
	<hr/>	<hr/>
	10,541	10,275
Decrease/(increase) in trade and other receivables	310	(100)
Decrease in trade and other payables	(174)	(257)
	<hr/>	<hr/>
	10,677	9,918
Interest paid	(7,331)	(6,874)
Interest received	7	58
Corporation tax paid	-	(253)
	<hr/>	<hr/>
<b>Net cash flows from operating activities</b>	3,353	2,849
<b>Investing activities</b>		
Proceeds from sale of investment properties	4,589	6,922
Acquisition of and improvements to investment properties	(20,356)	(7,277)
Acquisition of property, plant and equipment	(51)	(5)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>	(15,818)	(360)
<b>Financing activities</b>		
Costs of own shares acquired	-	(210)
Repayment of borrowings	-	-
New borrowings	15,600	-
Dividends paid	(2,848)	(3,741)
Payment of finance lease liabilities	(116)	(116)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>	12,636	(4,067)
Net increase/(decrease) in cash	171	(1,578)
Cash at the beginning of the year	5,949	7,527
	<hr/>	<hr/>
<b>Cash at the end of the year</b>	6,120	5,949
	<hr/> <hr/>	<hr/> <hr/>

**Consolidated Statement of Changes in Equity  
for the year ended 30 September 2010**

	Share capital	Reserves	Capital redemption reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 October 2008	18,469	3,773	1,629	69,467	93,338
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(30,997)	(30,997)
<b>Other comprehensive income</b>	-	-	-	-	-
<b>Transactions with owners, recorded directly in equity</b>					
Cancellation of shares	(135)	-	135	-	-
Own shares acquired	-	-	-	(210)	(210)
Dividends	-	-	-	(3,741)	(3,741)
Share based payments	-	-	-	176	176
<b>Total contributions by and distributions to owners</b>	<b>(135)</b>	<b>-</b>	<b>135</b>	<b>(3,775)</b>	<b>(3,775)</b>
<b>Balance at 30 September 2009</b>	<b>18,334</b>	<b>3,773</b>	<b>1,764</b>	<b>34,695</b>	<b>58,566</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	1,815	1,815
<b>Other comprehensive income</b>	-	-	-	-	-
<b>Transactions with owners, recorded directly in equity</b>					
Dividends	-	-	-	(2,848)	(2,848)
Share based payments	-	-	-	107	107
<b>Total contributions by and distributions to owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,741)</b>	<b>(2,741)</b>
<b>Balance at 30 September 2010</b>	<b>18,334</b>	<b>3,773</b>	<b>1,764</b>	<b>33,769</b>	<b>57,640</b>

**Notes to the Preliminary Financial Statements  
for the year ended 30 September 2010**

**Accounting policies**

**1 Basis of preparation**

The financial information set out below does not constitute the company's statutory accounts for the years ended 30 September 2010 and 30 September 2009. The financial information for 2009 is derived from the statutory accounts for 2009 which have been delivered to the Registrar of Companies. The auditors have reported on the 2009 accounts: their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2010 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies in due course.

The financial information contained in these preliminary results has been prepared in accordance with the Listing Rules of the Financial Services Authority, IFRS's as adopted by the EU and the accounting policies set out on pages 33 to 36 of the Annual Report 2009 which is available on the company's website ([www.localshoppingreit.co.uk](http://www.localshoppingreit.co.uk)).

The following new standards have been adopted in the preparation of this financial information:

- IAS 1 (revised) – Presentation of financial statements;
- IAS 23 (revised) – Borrowing costs;
- Amendment to IFRS 2 – Share based payments; and
- IFRS 8 – Operating Segments.

The adoption of these standards has not had a significant impact on the results of the Group for the year.

**2 Net financing costs**

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Financing income</b>		
Interest receivable	7	58
	<hr/>	<hr/>
Financing income excluding fair value movements	7	58
	<hr/>	<hr/>
Financing income	7	58
	<hr/>	<hr/>
<b>Financing expenses</b>		
Bank loan interest	(7,167)	(6,825)
Amortisation of loan arrangement fees	(130)	(248)
Head rents treated as finance leases	(56)	(74)
	<hr/>	<hr/>
Financing expenses excluding fair value movements	(7,353)	(7,147)
Fair value losses on derivative financial instruments (note 10)	(3,789)	(5,578)
	<hr/>	<hr/>
Financing expenses	(11,142)	(12,725)
	<hr/>	<hr/>
Net financing costs	<b>(11,135)</b>	(12,667)
	<hr/> <hr/>	<hr/> <hr/>

### 3 Earnings per share

#### Basic earnings per share

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

#### Profit/(loss) attributable to ordinary shares

	<b>2010</b> <b>£000</b>	2009 £000
Profit/(loss) for the year	<b>1,815</b>	(30,997)

#### Weighted average number of ordinary shares

	<b>2010</b> <b>Number</b> <b>000</b>	2009 Number 000
Issued ordinary shares at the start of the year	<b>82,506</b>	83,111
Effect of own shares held	-	(429)
Weighted average number of ordinary shares at the end of the year	<b>82,506</b>	82,682

#### Diluted earnings per share

There is no difference between basic and diluted earnings per share.

### 4 Dividends

A dividend of 1.7p per share (Total: £1.38m) was paid on 30 June 2010. Under the REIT legislation the Company's dividends are divided into two components, known as a PID and non PID. This was wholly classified as a PID.

On 31 December 2009 a dividend of 1.8p per share (Total: £1.46m) was paid. This dividend was wholly classified as a non PID.

On 30 June 2009 a dividend was paid of 1.7p per share (Total: £1.38m). This dividend was wholly classified as a PID.

On 31 December 2008 a dividend was paid of 2.875p per share (Total: £2.36m). This dividend was wholly classified as a non PID.

## 5 Investment property

	<b>Total £000</b>
At 1 October 2008	203,705
Additions	7,277
Disposals	(7,251)
Fair value adjustments	(28,275)
Assets held for sale	(1,300)
	<hr/>
At 30 September 2009	174,156
Additions	20,541
Disposals	(3,285)
Fair value adjustments	2,667
	<hr/>
<b>At 30 September 2010</b>	<b>194,079</b>
	<hr/> <hr/>

No investment properties have been identified that meet the criteria of assets held for resale at 30 September 2010. Investment properties held for sale at the prior year Balance Sheet date were shown separately as current assets as required by IFRS 5. These assets no longer met the investment criteria of the Group. In determining whether assets no longer meet the investment criteria of the Group consideration has been given to the conditions required under IFRS 5.

The investment properties have all been revalued to their fair value at 30 September 2010.

All properties acquired since 1 April 2010, together with a sample selected by the valuers of 25% of the portfolio have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The remainder of the portfolio has been valued by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of 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 generate rental income.

A reconciliation of the portfolio valuation at 30 September 2010 to the total value for investment properties given in the Balance Sheet is as follows:

	<b>2010 £000</b>	2009 £000
Portfolio valuation	<b>192,873</b>	174,432
Investment properties held for sale	-	(1,300)
Head leases treated as investment properties held under finance leases per IAS 17	<b>1,206</b>	1,024
	<hr/>	<hr/>
Total per Balance Sheet	<b>194,079</b>	174,156
	<hr/> <hr/>	<hr/> <hr/>

## 6 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	2,883	3,355
Other receivables	696	963
Prepayments	758	328
	<u>4,337</u>	<u>4,646</u>

## 7 Interest-bearing loans and borrowings

	2010 £000	2009 £000
<b>Non-current liabilities</b>		
Secured bank loans	132,529	116,929
Less: loan arrangement fees	(838)	(796)
	<u>131,691</u>	<u>116,133</u>
<b>Current liabilities</b>		
Current portion of secured bank loans	-	-
	<u>-</u>	<u>-</u>

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

## 8 Trade and other payables

	2010 £000	2009 £000
Trade payables	433	541
Other taxation and social security	292	403
Other payables	1,006	1,060
Accruals and deferred income	3,330	3,166
	<u>5,061</u>	<u>5,170</u>

Other payables include rent deposits held in respect of commercial tenants of £854,000 (2009: £825,000).

## 9 Capital and reserves

### Share capital

	Ordinary shares		Ordinary shares	
	2010 Number 000	2010 Value £000	2009 Number 000	2009 Value £000
Alloted, called up and fully paid	<b>91,670</b>	<b>18,334</b>	91,670	18,334

## 9 Capital and reserves (continued)

### Investment in own shares

In the prior year the company purchased 630,000 shares, 675,000 shares were cancelled and 25,000 shares were transferred to the Company's Employee Benefit Trust, LSR Trustee Limited ("EBT"). At the year end, 9,164,017 shares were held in Treasury (2009: 9,164,017). During the year, no shares were transferred from Treasury to the EBT (2009: 30,000). The number of shares held by the EBT at the year end was 1,123,339 (2009: 1,123,339).

### 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 the prior year on the cancellation of 675,000 Ordinary 20p shares.

## 10 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 2008 £000	Movements in Income Statement £000	Fair value 2009 £000	Movements in Income Statement £000	Fair value 2010 £000
Non current assets	37	(37)	-	-	-
Current assets	203	(203)	-	-	-
Non-current liabilities	-	(2,976)	(2,976)	(3,770)	<b>(6,746)</b>
Current liabilities	-	(2,362)	(2,362)	(19)	<b>(2,381)</b>
Net value	<b>240</b>		<b>(5,338)</b>		<b>(9,127)</b>
Amount charged to Income Statement		<b>(5,578)</b>		<b>(3,789)</b>	

At 30 September 2010 and 30 September 2009 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:

	Amount	Rate	Fair value 2009	Movement s in Income Statement	Fair value 2010
<b>Maturity date</b>	£000	%	£000	£000	£000
30 April 2016	33,000	5.06 to 5.29	(3,315)	(864)	<b>(4,179)</b>
31 January 2017	24,378	5.4476	(1,975)	(2,973)	<b>(4,948)</b>
<b>Swaps in place at 30 September 2010</b>	57,378		(5,290)	(3,837)	<b>(9,127)</b>
Amortising swap with a maturity date of 31 January 2017	800	5.4476	(48)	48	-
Swaps in place at 30 September 2009	58,178		(5,338)	(3,789)	<b>(9,127)</b>

## 10 Derivative financial instruments (*continued*)

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

The Group does not speculate in financial instruments, it uses them 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 2010, 95% (2009: 100%) of the Group's debt was fixed or protected.

## 11 Fair value

The fair value of the Group's financial liabilities is not considered to be materially different from their book value with the exception of the following fixed rate loan held with Barclays Capital. The fixed rate element of loan has also been valued by JC Rathbone Associates Limited using a discounted cash flow model and published information.

	2010 £000	2009 £000
<b>Fixed rate loan</b>		
Carrying value of loan	68,969	68,969
Fair value	<b>(80,056)</b>	(74,892)
<b>Difference</b>	<b>(11,087)</b>	(5,923)