



**4 December 2008**

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

**UNAUDITED PRELIMINARY RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2008**

The Local Shopping REIT plc (LSE: LSR), a real estate investment trust which provides investors with access to a diversified portfolio of local shopping assets in the United Kingdom, today announces unaudited results for the year ended 30 September 2008.

**Financial Highlights:**

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

**Operational highlights**

- Portfolio now comprises 641 properties, with 2,009 letting units, following active programme of acquisitions and disposals during the year:
  - 42 properties sold for £13.5 million at a blended yield of 6.18%, together with 56 residential flats for £3.1 million, 54 of which were sold during the second half for £3.0 million (March 2008 value: £2.9 million)
  - 46 properties acquired for £11.8 million at a blended yield of 7.68%. All but ten of these acquisitions were completed in the first half of the year.
- Continued success in active management initiatives:
  - 89 new lettings secured generating an annual rental income of £1,049,416 (2.6% above Market Rent), of which 54 were let in the second half, producing rental income of £690,461 per annum

- Rental increase of £383,785 per annum, an average uplift of 12.0% (5.1% above Market Rent), generated through 255 rent reviews, lease renewals and surrender and re-lettings carried out during the year
- Planning consent secured for 16 flats and two retail units
- Seven change of use applications approved.

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

“The Company’s primary focus over the next twelve months will be creating value for our shareholders through the active asset management of our existing portfolio, together with share buybacks where appropriate and the sale of our lower yielding and ex-growth properties.

“Our portfolio remains well balanced and diversified by both tenant type and geography and our core tenant base - independent traders - rely less on discretionary spend than retailers in the traditional high street. As such, we believe that they will work hard to maintain the value of their businesses during the tough times ahead. This, coupled with our affordable rental levels (the average shop rent is below £13,000 per annum), we believe should underpin the portfolio’s resilience in the difficult trading environment that lies ahead.

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

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

“The Company is in a strong financial position to weather the financial storm facing the property and financial markets. We are excited about the opportunities that should become available over the next year to use our unique skills to create shareholder value.”

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

“The Company’s highly specialised asset management capability has continued to demonstrate encouraging progress this year, with new leases often agreed at levels above market rents. We are confident that our strategy will position us to be able to take advantage of opportunities that arise over the coming period.”

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## **CHAIRMAN'S STATEMENT**

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

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

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

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

### **Strategy**

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

large and varied portfolio of smaller commercial properties which are located across the UK. Over the coming months, we will continue to look for opportunities to use this expertise to generate additional value.

## **Results**

During the year the Company made a recurring profit of £5.1 million (6.1 pence per share), the calculation of which is provided in the Financial Review.

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

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

## **Revaluation**

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

## **Financing**

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

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

During the year we restructured our undrawn loan facilities with HSBC and a new £60 million loan was arranged. This loan comprises a £25 million term facility and £35 million revolving credit facility, which both expire in October 2016. The interest margin is set at between 0.80% and 1.6% depending on the loan to value ratio. These two facilities are currently undrawn, providing ample funding flexibility for the foreseeable future.

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

### **Dividend**

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

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

### **Share Buybacks**

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

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

### **Outlook**

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

our existing portfolio, together with share buybacks where appropriate and the sale of our lower yielding and ex-growth properties.

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

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

**Grahame Whateley**

**Chairman**

**4 December 2008**

## **JOINT CHIEF EXECUTIVES' REVIEW**

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

### **Our Portfolio**

#### **Geographic Spread**

Region	% of Market Rent
East Anglia	4.8%
East Midlands	3.0%
North	4.2%
North West	13.7%
Scotland	13.4%
London & South East	27.6%
South West	11.6%
West Midlands	6.7%
Wales	5.3%
Yorkshire & Humberside	9.7%

#### **Use Type**

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

### **Portfolio Performance**

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

## Combined Portfolio

Value	£202.3 million
Initial Yield	7.57%
Reversionary Yield	8.48%
Equivalent Yield*	8.52%
Rent pa	£16.1 million
Market Rent pa	£18.0 million
Commercial Value	£185.7 million
Residential Value	£16.6 million

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

\* excluding residential element

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

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

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

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

	30 September 08	30 September 07	Change
<b>Value</b>	£191.7 million	£233.0 million	-17.7%
<b>Initial Yield</b>	7.54%	6.55%	+0.99%
<b>Reversionary Yield</b>	8.49%	7.06%	+1.43%
<b>Equivalent Yield*</b>	8.53%	7.11%	+1.42%
<b>Rent per annum</b>	£15.2 million	£16.1 million	-5.4%
<b>Market Rent per annum</b>	£17.1 million	£17.3 million	-1.2%
<b>Commercial Value</b>	£175.4 million	£213.8 million	-17.9%
<b>Residential Value</b>	£16.2 million	£19.2 million	-15.5%

\* excluding residential element

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

### Acquisitions and Sales

Since 30 September 2007, we have acquired 46 properties for a total consideration of £11.8 million at a blended yield of 7.68%, although only ten of these properties, bought for £3.2 million, were purchased during the second half of the year. Since the year end there have been no further acquisitions. During the first part of the reporting period, we recognised that the market was turning and we reacted quickly, withdrawing from a number of property purchases where, in the light of the rapidly deteriorating conditions, we did not think that the acquisitions would generate sufficient shareholder value over the long term. As a result, we incurred abortive acquisition costs of £97,627 which we do not expect to recur.

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

Since the year end we have completed the sale of a further five properties for £1.0 million at an average yield of 6.16% (September 2008 valuation: £0.8 million). Over the coming year we intend to sell further properties, but given current market conditions, we anticipate that the average yield on disposal will rise.

## **Asset Management**

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

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

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

In line with our strategy to deliver value from the under-used upper parts of our shops, or unused adjacent land, we have secured planning consents for two retail and 16 residential units. As at 30 September 2008, we had lodged two appeals against the refusal of consent for a further 10 flats. Over the year, we also secured a number of change of use consents: three units were changed from A1 (shops) to A2 (financial and professional services), four units to A3 (restaurant/café), and one unit to A5 (hot food take-away). In addition, we secured one change of use consent from offices to residential.

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

## **Financing**

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

During the year, we restructured our undrawn facilities with HSBC and entered into a new £60 million facility. This facility comprises a £25 million term loan, to be fully drawn before September 2009 unless

extended, and a £35 million revolving credit facility. The term of both loans is until October 2016, and they have a loan-to-value covenant of 80% during the drawdown period only. Both loans have interest cover default tests at 120% actual and 110% projected. The margin on the loans vary between 0.80% and 1.60%, depending on the loan-to-value ratio, and a commitment fee of 0.3% per annum is payable on the undrawn balance of the revolving facility.

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

### **Occupier Market**

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

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

### **Void Rate**

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

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

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

During the year we, in common with the industry, have seen an increase in bad debts as the UK economy moves towards recession. We are typically taking a robust approach to debt recovery and generally prefer to take back units where tenants are in financial difficulty so we can re-let and improve the quality of our cashflow. As a result, bad debt write-offs in the year rose to £734,489 (September 2007: £219,899). However, we also recognise that there may be occasions when it is sensible to let a tenant remain in occupation at a reduced rent in order to mitigate our outgoings, particularly our liability for empty rates, if the local letting market is difficult. Similarly, we are taking an increasingly pragmatic approach to letting vacant units in order to mitigate any increase in voids and associated costs.

From April 2008 we have been obliged to pay 100% of the rates liability on empty retail units following a three month grace period, up from the previous 50%. This is an unwelcome additional financial burden in the current market and we estimate that it has led to an increase in empty rates payable of over £100,000 during the second half of the year. The November 2008 Pre-Budget Report announced that properties with a rateable value of under £15,000 per annum would be exempt empty rates for the fiscal year 2009/10. While, disappointingly, this is only a temporary measure, we estimate that approximately two thirds of our vacant units fall into this category which will have a positive impact on earnings.

When we let units to independent tenants, it is our policy to seek rent deposits of between three to six months. As at 30 September 2008, we held deposits totalling approximately £800,000, or nearly 20% of our quarterly rent roll. This provides us with a measure of protection against tenant default, which is not generally available when letting units to national retailers.

### **Investment Market**

In our last annual report we noted that, during the late summer of 2007, we had witnessed a significant reversal in sentiment within the property market, which had had adversely impacted investment yields. In the last 12 months the investment market has weakened further, with the downturn gathering momentum as the year progressed. While the market for smaller lot sizes initially proved more resilient, the increasingly restricted availability of bank finance has severely limited liquidity in the market. However, there is still selective interest from private investors and owner occupiers who have a limited requirement

for debt funding. While sales rates at auctions are down considerably, the London-based commercial auction houses are still managing to sell approximately 60% of the lots offered, which provides some transparency on the pricing of smaller lot sizes in the current market. Nevertheless, the lack of investment demand points to a continuing fall in capital values and we expect to see further falls over the first six months of the year.

### **Business Outlook**

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

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

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

### **Staff**

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

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

**Mike Riley & Nick Gregory**  
**Joint Chief Executive Officers**  
**4 December 2008**

## FINANCIAL REVIEW

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

### Key performance indicators

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

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

\*Based on loss before tax and interest adjusted for revaluation movements and other expenses

\*\* Net of cash held on substitution to buy properties

\*\*\*Based on 83,110,853 shares in issue at 30 September 2008 (2007: 97,539,040)

\*\*\*\*Adjusted for fair value movements in loans not recognised on Balance Sheet

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

### Trading results

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

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

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

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

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

### **Financing income**

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

### **Financing costs and available facilities**

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

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

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

### Corporate acquisitions

No corporate acquisitions have been completed during the current year.

### Recurring profits

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

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

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

### Taxation

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

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

## **Dividends**

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

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

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

## **Share capital and reserves**

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

## **Cash flows**

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

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

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

**Victoria Whitehouse**

**Finance Director**

**Consolidated Income Statement**  
for the year ended 30 September 2008

	<i>Note</i>	<b>Year ended 30 September 2008 £000</b>	Year ended 30 September 2007 £000
<b>Gross rental income</b>		<b>16,691</b>	13,101
Property operating expenses		<u>(2,622)</u>	(1,642)
<b>Net rental income</b>		<b>14,069</b>	11,459
Profit on disposal of investment properties		<b>48</b>	83
Loss from change in fair value of investment properties	7	<b>(44,358)</b>	(6,424)
Administrative expenses		<b>(2,774)</b>	(2,573)
Net other (expenses) / income		<u>(113)</u>	25
<b>Operating (loss) / profit before goodwill and net financing costs</b>		<b>(33,128)</b>	2,570
Negative goodwill arising on acquisition		<u>-</u>	2,046
<b>Operating (loss) / profit before net financing costs</b>		<b>(33,128)</b>	4,616
Financing income*	3	<b>540</b>	786
Financing expenses*	3	<b>(6,535)</b>	(10,180)
Movement in fair value of financial derivatives	3	<u>(1,347)</u>	516
<b>Loss before tax</b>	11	<b>(40,470)</b>	(4,262)
Taxation	4	<u>-</u>	(3,799)
<b>Loss for the year attributable to equity holders of the company</b>		<u><b>(40,470)</b></u>	(8,061)
<b>Basic and diluted loss per share</b>	5	<u><b>(44.5)p</b></u>	(20.0)p

\* Excluding movement in fair value of financial derivatives

**Consolidated Balance Sheet**  
for the year ended 30 September 2008

	<i>Note</i>	<b>At 30 September 2008 £000</b>	At 30 September 2007 £000
<b>Non current assets</b>			
Plant and equipment		216	73
Investment properties	7	203,705	247,608
Derivative financial instruments	12	37	1,034
<b>Total non-current assets</b>		<b>203,958</b>	248,715
<b>Current assets</b>			
Derivative financial instruments	12	203	553
Trade and other receivables	8	4,546	4,829
Investment properties held for sale	7	-	3,081
Cash		7,527	5,735
<b>Total current assets</b>		<b>12,276</b>	14,198
<b>Total assets</b>		<b>216,234</b>	262,913
<b>Non current liabilities</b>			
Interest bearing loans and borrowings	9	(115,927)	(98,149)
Finance lease liabilities		(1,356)	(1,353)
<b>Total non-current liabilities</b>		<b>(117,283)</b>	(99,502)
<b>Current liabilities</b>			
Bank overdraft		-	(115)
Interest bearing loans and borrowings	9	-	-
Trade and other payables	10	(5,613)	(11,523)
<b>Total current liabilities</b>		<b>(5,613)</b>	(11,638)
<b>Total liabilities</b>		<b>(122,896)</b>	(111,140)
<b>Net assets</b>		<b>93,338</b>	151,773
<b>Equity</b>			
Issued capital		18,469	20,098
Reserves		3,773	3,773
Retained earnings		71,096	127,902
<b>Total attributable to equity holders of the Company</b>	11	<b>93,338</b>	151,773

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

	<i>Note</i>	<b>Year ended 30 September 2008 £000</b>	Year ended 30 September 2007 £000
<b>Operating activities</b>			
Loss for the year		(40,470)	(8,061)
Adjustments for:			
Loss from change in fair value of investment properties		44,358	6,424
Net financing costs		7,342	8,878
Profit on disposal of investment properties		(48)	(83)
Depreciation		33	-
Employee share options		175	-
Negative goodwill on acquisition		-	(2,046)
Corporation tax expense		-	3,799
		<b>11,390</b>	8,911
Decrease/(increase) in trade and other receivables		3,365	(1,175)
(Decrease)/increase in trade and other payables		(436)	1,058
		<b>14,319</b>	8,794
Interest paid		(7,503)	(8,225)
Interest received		1,887	786
Corporation tax paid		(4,573)	-
<b>Net cash flows from operating activities</b>		<b>4,130</b>	1,355
<b>Investing activities</b>			
Acquisition of subsidiary, net of cash acquired		-	(6,700)
Proceeds from sale of investment properties		13,203	1,139
Acquisition of investment properties		(13,606)	(101,289)
Acquisition of fixed assets		(176)	-
<b>Cash flows from investing activities</b>		<b>(579)</b>	(106,850)
<b>Financing activities</b>			
(Costs)/proceeds of buy back/issue of share capital		(13,590)	153,150
Repayment of borrowings		-	(251,966)
New borrowings		17,700	207,023
Dividends paid		(5,830)	-
Payment of finance lease liabilities		76	108
<b>Cash flows from financing activities</b>		<b>(1,644)</b>	108,315
Net increase in cash		1,907	2,820
Cash at 1 October 2007		5,620	2,800
<b>Cash at 30 September 2008</b>		<b>7,527</b>	5,620

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

	<b>2008</b> <b>£000</b>	2007 £000
Net income recognised directly in equity	-	-
Loss for the year	<u>(40,470)</u>	<u>(8,061)</u>
Total recognised income and expense for the year attributable to equity holders of the company	<u><u>(40,470)</u></u>	<u><u>(8,061)</u></u>

## Notes to the Financial Statements

for the year ended 30 September 2008

### 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 2008 and 30 September 2007. The financial information for 2007 is derived from the statutory accounts for 2007 which have been delivered to the registrar of companies. The auditors have reported on the 2007 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 237(2) or (3) of the Companies Act 1985. The statutory accounts for 2008 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 and the accounting policies set out on pages 39 to 42 of the Annual Report 2007 which is available on the company's website ([www.localshoppingreit.co.uk](http://www.localshoppingreit.co.uk)). No new IFRSs have been adopted which has resulted in a change in the preparation of the results.

#### 2. Segmental reporting

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

#### 3. Net financing costs

	2008 £000	2007 £000
<b>Financing income</b>		
Interest receivable	311	786
Gain on sale of derivative financial instruments	229	-
	<hr/>	<hr/>
Financing income excluding fair value movements	540	786
Fair value gains on derivative financial instruments (note 12)	-	516
	<hr/>	<hr/>
Financing income	540	1,302
<b>Financing expenses</b>		
Bank loan interest	(6,230)	(7,054)
Other loan interest	-	(2,466)
Amortisation of loan arrangement fees	(230)	(552)
Head rents treated as finance leases	(75)	(108)
	<hr/>	<hr/>
Financing expenses excluding fair value movements	(6,535)	(10,180)
Fair value losses on derivative financial instruments (note 12)	(1,347)	-
	<hr/>	<hr/>
Financing expenses	(7,882)	(10,180)
	<hr/>	<hr/>
Net financing costs	(7,342)	(8,878)

#### 4. Taxation

	<b>2008</b>	2007
	<b>£000</b>	£000
<b>Current tax</b>		
REIT conversion charge	-	4,584
Total current tax	-	4,584
<b>Deferred tax charge</b>		
Origination and reversal of temporary differences	-	(785)
Total tax charge in the income statement	-	3,799

#### 5. Earnings per share

##### Basic earnings per share

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

##### Profit attributable to ordinary shares

	<b>2008</b>	2007
	<b>£000</b>	£000
Loss for the year	<b>(40,470)</b>	(8,061)

	<b>2008</b>	2007
	<b>Number</b>	Number
	<b>000</b>	000
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares at the start of the year	<b>97,539</b>	800
Effect of sub-division of shares	-	1,324
Effect of own shares held	<b>(6,519)</b>	(134)
Effect of shares issued	-	38,383
Weighted average number of ordinary shares at the end of the year	<b>91,020</b>	40,373

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

##### Diluted earnings per share

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

#### 6. Dividends

A final dividend of 2.875p per share has been proposed by the directors for payment on 31 December 2008. This dividend of £2.36m has not been provided for in these results in accordance with IAS 10.

On 3 January 2008 a dividend in respect of the year ended 30 September 2007 of £3.18m was paid. Under the REIT legislation the Company's dividends are divided into two components, known as PID and non-PID. This dividend was wholly classified as a non PID.

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

## 7. Investment property

	Total £000
At 1 October 2006	141,539
Additions	116,630
Disposals	(1,056)
Fair value adjustments	(6,424)
Investment properties held for sale	<u>(3,081)</u>
At 30 September 2007	<u>247,608</u>
Additions	13,610
Disposals	(13,155)
Fair value adjustments	<u>(44,358)</u>
<b>At 30 September 2008</b>	<b><u>203,705</u></b>

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

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

All properties acquired since 1 October 2007, together with a random sample of 25% of the portfolio at the half year and year end have been valued by Allsop LLP, a firm of independent Chartered Surveyors. The valuations were undertaken in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The remainder of the portfolio has been valued by the directors who have an appropriate recognised professional qualification and recent experience in the location and category of 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 2008 to the total value for investment properties given in the Consolidated Balance Sheet is as follows:

	2008 £000	2007 £000
Portfolio valuation	202,349	249,296
Items not revalued	-	40
Investment properties held for sale	-	(3,081)
Head leases treated as finance leases under IAS 17	<u>1,356</u>	<u>1,353</u>
Total per Consolidated Balance Sheet	<b><u>203,705</u></b>	<b><u>247,608</u></b>

## 8. Trade and other receivables

	2008 £000	2007 £000
Trade receivables	3,638	4,092
Other receivables	591	568
Prepayments	317	169
	<hr/>	<hr/>
	4,546	4,829
	<hr/> <hr/>	<hr/> <hr/>

## 9. Interest-bearing loans and borrowings

	2008 £000	2007 £000
<b>Non-current liabilities</b>		
Secured bank loans	116,929	99,229
Other loans	-	-
Less: loan arrangement fees	(1,002)	(1,080)
	<hr/>	<hr/>
	115,927	98,149
	<hr/> <hr/>	<hr/> <hr/>
<b>Current liabilities</b>		
Current portion of secured bank loans	-	-
	<hr/> <hr/>	<hr/> <hr/>

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.

## 10. Trade and other payables

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

## 11. Capital and reserves

### Reconciliation of movement in Capital and Reserves

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

### Share capital

	Ordinary shares 2008		Ordinary shares 2007	
	Number 000	Value £000	Number 000	Value £000
Allotted, called up and fully paid	<b>92,345</b>	<b>18,469</b>	100,493	20,098

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

### Share premium

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

### Investment in own shares

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

### Reserves

The value of shares issued to purchase Gilfin Property Holdings Limited in excess of their nominal value has been shown as a separate reserve in accordance with the Companies Act 1985.

### Capital redemption reserve

The capital redemption reserve arose on the cancellation of 8,147,920 (2007: Nil) ordinary 20 pence shares.

## 12. Financial instruments and risk management

Interest rate risk – the group does not speculate in treasury products. It uses these products to minimise the exposure to interest rate fluctuations. The group borrows from UK banks at fixed and floating rates of interest based on LIBOR and uses hedging mechanisms to achieve an interest rate profile where the majority of borrowings are fixed or capped. The group's policy is to hedge between 60% and 100% of its interest rate exposure. At 30 September 2008, 100% (2007: 100%) of the group's debt was fixed or protected with a further £11,277,745 (2007: £50,378,000) of swaps in place to cover future debt as it is drawn down.

Derivative financial instruments are shown in the consolidated balance sheet as follows:

	At 1 October 2007 £000	Mark to market £000	At 30 September 2008 £000
Non current assets	1,034	(997)	37
Current assets	553	(350)	203
Net value	<u>1,587</u>		<u>240</u>
Amount charged to income statement		<u>(1,347)</u>	

The group's interest rate swaps in place at 30 September 2008 and 30 September 2007, did not qualify as effective swaps for hedge accounting under the criteria set out in IAS 39.

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

Maturity date	Amount £000	Rate %	Fair value 2007 £000	Movements in income statement £000	Fair value 2008 £000
30 April 2016	33,000	5.06 to 5.29	595	(690)	(95)
31 January 2017	<u>25,978</u>	5.4476	<u>1,001</u>	<u>(666)</u>	<u>335</u>
<b>Swaps in place at 30 September 2008</b>	58,978		1,596	(1,356)	240
Disposed of during the year					
30 April 2016	21,000	5.45 to 5.62	(13)	13	-
Amortising swap					
31 January 2017	<u>400</u>	5.4476	<u>4</u>	<u>(4)</u>	<u>-</u>
	<u>80,378</u>		<u>1,587</u>	<u>(1,347)</u>	<u>240</u>

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

The Group does not trade financial derivatives.

## 12. Financial instruments and risk management *(continued)*

### Fair value

The fair value of the Group's financial liabilities is not considered to be materially different from the book value with the exception of the following fixed rate loan held with Barclays Capital.

	<b>2008</b>	2007
	<b>£000</b>	£000
<b>Fixed rate loan</b>		
Carrying value of loan	<b>68,869</b>	68,775
Fair value	<b>(67,890)</b>	(65,813)
	<hr/>	<hr/>
<b>Difference</b>	<b>979</b>	2,962
	<hr/> <hr/>	<hr/> <hr/>