Lok'nStore Group Plc
Annual Report + Accounts 2004

04

LOK'nSTORE
Business & Household Self Storage

Lok'nStore Group Plc Annual Report + Accounts 2004

www.loknstore.co.uk

The self-storage market continues to offer an unrivalled combination of predictable profits and potential for growth.

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2004 Highlights

"Lok'nStore has experienced accelerating sales growth over the past year..."
Simon Thomas *Chairman*

Financial Highlights

- Turnover up 17.8% to £6.61m
- Annualised revenues up 20.3% to £7.7m
- EBITDA for 5 year-old stores over 48%
- Share buyback of 12% of issued share capital

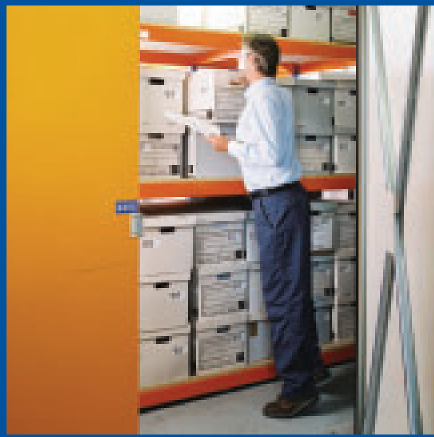
Operational Highlights

- Number of customers up 27.5%
- Sales of insurance and packaging up 20.4%
- Acquisition of sites at Eastbourne, Tonbridge and Farnborough

"Lok'nStore's market position, leading brand, and growing cash flow make us confident of delivering substantial growth in shareholder value."
Simon Thomas *Chairman*

Chairman's Statement

Simon Thomas
Chairman



Our Objectives

- Further improve the operating performance of existing stores
- Enhance the value of existing stores
- Grow the number of stores
- Optimise the Group's capital structure

Overview

The Group has experienced accelerating sales growth over the past year. We are particularly pleased to report that stores opened earlier in the Group's development have contributed to this growth in combination with rapid sales increases at more recently opened stores.

As we said in our last annual statement "the management focus is on growth" and this strategy has underpinned the highly satisfactory outcome that has been achieved. The recent acquisition of sites at Tonbridge and Farnborough, and the opening of the Eastbourne store in October 2003, reflect our buoyant view of the market.

We remain committed to finding new high quality self-storage sites while increasing occupancy at, and enhancing the value of, existing stores. We continue to believe that the South-East of England represents the greatest potential for the Group's expansion, and our acquisition strategy remains driven by prospective rates of return, site location and visibility.

Growth in Turnover and Customers

Turnover for the year was £6.61m (2003: £5.61m), an increase of 17.8%. Annualised revenues are currently £7.7m (2003: £6.4m), up 20.3% compared to the previous year. The Group made an operating profit before exceptionals for the year of £121,674 compared with a profit of £77,190 in 2003. The Group made a small pre-tax and exceptionals loss for the year of £41,697 compared with a profit of £34,704 in 2003. Basic earnings per share before exceptionals was a loss of 0.16p per share (2003: profit of 0.13p per share).

Packing materials, insurance and other sales kept pace with storage income at 8.2% of turnover, an increase of 20.4% over the year.

At the year end the number of customers had risen to 5,566 from 4,365 in July 2003, an increase of 27.5% over the year. The business handled 7,435 'move-ins' during the year compared to 5,127 in 2003.

New Stores

As we said in our last annual statement we are aiming "to accelerate new site acquisitions in the year ahead". I am delighted to report that during the year we acquired or opened an additional 3 sites at Eastbourne, Tonbridge and Farnborough which are located within our existing geographical coverage. They are all located in attractive markets with little local competition, and will be managed by our existing sales team. This will take the total number of our stores to 20.

We also acquired the effective freehold of our Poole store, which would

Trading Summary – EBITDA

July 04 – Stores	>250 weeks old	100 to 250 weeks old	<100 weeks old
	Sub Total £'000	Sub Total £'000	Sub Total £'000
Sales	3,105	3,159	270
EBITDA	1,491	536	-271
EBITDA%	48%	17%	-100%
Maximum Lettable Area '000 sq ft	305	365	80

otherwise have been due for lease renewal next year. This provides the store with a further 13,567 sq ft to expand into, as well as securing the valuable income stream, and protecting against future rent reviews.

When fully developed, the Tonbridge and Farnborough stores will provide an additional 90,000 sq ft of net storage capacity, taking the total for the 20 stores to 840,000 sq ft. 10 of our 20 Centres are owned freehold by the Group with the remainder as leasehold.

Positive Trading

During the year we increased occupancy by a record 96,909 sq ft, with total occupancy at 31 July 2004 of 472,028 sq ft. We have included a table above summarising the trading performance of all our stores over the year, analysed between stores open less than 100 weeks, between 100 and 250 weeks, and more than 250 weeks at the beginning of the period.

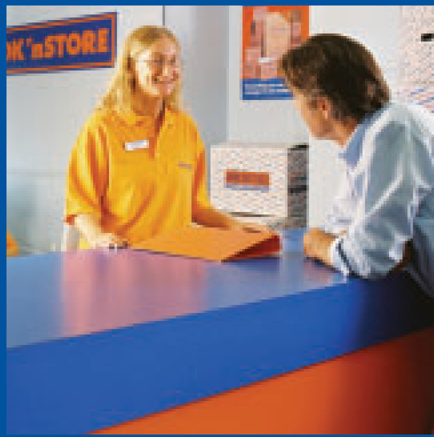
The 8 stores open for more than 250 weeks made trading profits before central and head office overheads, interest, tax, depreciation and amortisation ("EBITDA") of £1.5m in the year on turnover of £3.1m, a margin of 48%. Also, encouragingly, revenue occupancy of these 8 stores increased 17.5% year on year, and there is still room to further increase this in the coming year.

Financial Strength and Balance Sheet Efficiency

On 31 January 2004, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, in respect of all freehold land and properties held by the Group as operational self-storage businesses. This Report was prepared on the basis of Market Value/Existing Use Value, as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was ignored. The Report indicated a total value of £20.1m. This is £10.2m in excess of the net book value of freehold property and land as disclosed in the Group's interim financial statements as at 31 January 2004.

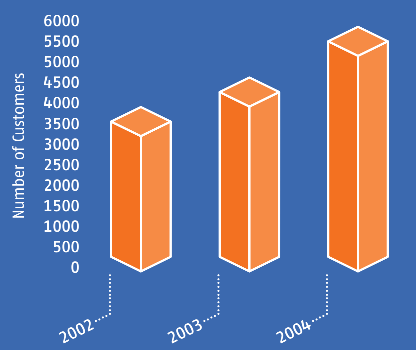
This increase in freehold valuations provides the Group with increased financial flexibility and financial strength going forward enhancing the Group's ability to borrow, as and when debt is required and, making the value created within our operations more transparent to shareholders, potentially giving the Group the opportunity to release more value to shareholders. These valuations do not account for any further uplift in values, which would result from the successful outcome of the proposed planning applications for high density housing schemes at the Kingston and Reading sites.

Chairman's Statement *continued*



"...increased financial flexibility and financial strength going forward."

Number of Customers



Since this valuation we have also purchased the effective freehold at Poole and the new site at Farnborough for a total of £4.4m.

With the planning applications at Kingston and Reading moving forward we will assess the Group's attitude to reinvesting the potential proceeds from these sales versus returning more cash to shareholders as the outcome becomes clearer.

More Stores

Our objective continues to be increasing our number of stores within our current geographical coverage of South-East England. As evidenced by our recent acquisitions and openings we believe the current market for new sites is becoming less competitive, while the excess of untapped demand for self-storage provides plenty of room for growth for many years.

When fully completed, our current portfolio of 20 stores and sites will provide around 840,000 sq ft of net storage space.

Subject to market conditions, it is our current aim to acquire between two and four stores per annum. Our current store size is typically around 40,000 lettable sq ft per store and this may increase for new stores up to 60,000 lettable sq ft, which would result in additional capacity of 80,000 to 240,000 sq ft per annum. However the exact timing of store openings will largely depend on market availability, and we will retain our disciplined approach to site acquisition.

The Self-Storage Market in the UK

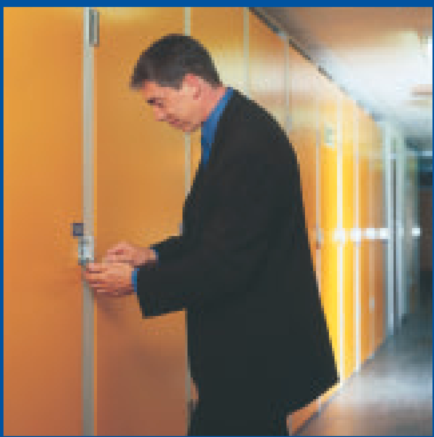
The self-storage market continues to grow rapidly with both first generation converted buildings and modern, well located, prominent stores all continuing to show good growth. The lower cost base associated with the older converted buildings ensures that they generate returns equal to the more highly specified, but higher cost base new stores.

Lok'nStore's four stores in the oldest buildings with the lowest specification, grew revenue occupancy by 19.8% over the financial year. This compares with the Company average for the year of 18.8%. Those oldest four stores generated a combined EBITDA margin of 52%.

During the year Safestore and Mentmore, 2 of the 4 UK listed self-storage operators were bought by Bridgepoint, a private equity house who recognised the quality of the cash flow which self-storage produces. Lok'nStore is now one of only two quoted storage operators, ranked fourth in size in the UK (and sixth in Europe).

Lok'nStore People

Following the departure of Steven Hourston in June 2003, Andrew Jacobs stepped in to undertake the day-to-day management of the business. Andrew founded the business in 1995 and after conducting a strategic review in early 2003 Andrew has taken detailed control of the business, consenting to take up the role of Chief Executive Officer from August 2004.



Andrew's concentration on the sales and marketing functions has resulted in a 15% increase in enquiries per Centre, and conversion increasing by 7%.

During the year we were very pleased to welcome Ray Davies, who replaced Chris Stevens the departing Finance Director. We thank Chris for his work over the two years he was with the Group. Ray, a chartered accountant, has held a number of senior finance positions in the construction and health & fitness sectors and brings with him a wealth of experience of both Aim and fully listed companies which will benefit both the Board and the Group. He has a solid track record in the finance and strategic arenas and will be an asset to the business.

We also welcomed Robert Jackson as non-executive director. Robert's experience of finance and accounting, both inside and outside the City, and his extensive network of contacts are already proving invaluable.

The overall cost and staff numbers of head office have been trimmed and these resources redirected towards sales and marketing functions. This emphasis will be maintained.

I would like to thank all of the people who work both in our head office and in our stores for their commitment to our business and for their hard work over the year. Their continued efforts will provide us with the necessary platform for our success. I am pleased to say that 36 of them (40%) are either Employee Benefit Trust ('EBT') share or option holders, which ensures staff and shareholders are working towards the same objectives.

Outlook: Combination of Predictable Profits and Potential

The self-storage market continues to offer an unrivalled combination of predictable profits and potential for growth. Lok'nStore's proven ability to expand steadily within this market gives us confidence in the future performance of the Group with growing turnover from existing stores and growth in number of stores combining to produce attractive growth and profits.

Our priorities continue to be:
- further improve the operating performance of existing stores
- enhance the value of existing stores
- grow the number of stores
- optimise the Group's capital structure

Lok'nStore's market position, leading brand, and growing cash flow make us confident of delivering substantial growth in shareholder value.

Simon Thomas
Chairman
2 November 2004

Operating Review

Andrew Jacobs
Chief Executive

In the last year...

- Our conversion ratio of enquiries into customers increased by 7%
- 19 stores now trading
- 14 stores have positive operating cashflow
- Oldest stores (over 250 weeks) increased revenue occupancy by 17.5%
- Total capacity 840,000 sq ft

12 stores trading profitably at the pre-tax level

Sales Performance

In the last 12 months we have raised operational standards and increasingly focused store staff on taking responsibility for increasing turnover. This work has improved the consistency of performance across the stores. Our central sales team has been augmented and its role redefined. In particular the team has run more and better sales training courses. In addition, we have revised the bonus scheme to link performance and reward more directly to turnover growth and consistently high quality customer service. As a result our conversion ratio of enquiries into customers increased by 7%.

During the year we successfully opened our new Eastbourne store, and then Tonbridge after the year-end in August, bringing the number of stores now trading to 19. Total capacity is currently 790,000 sq ft.

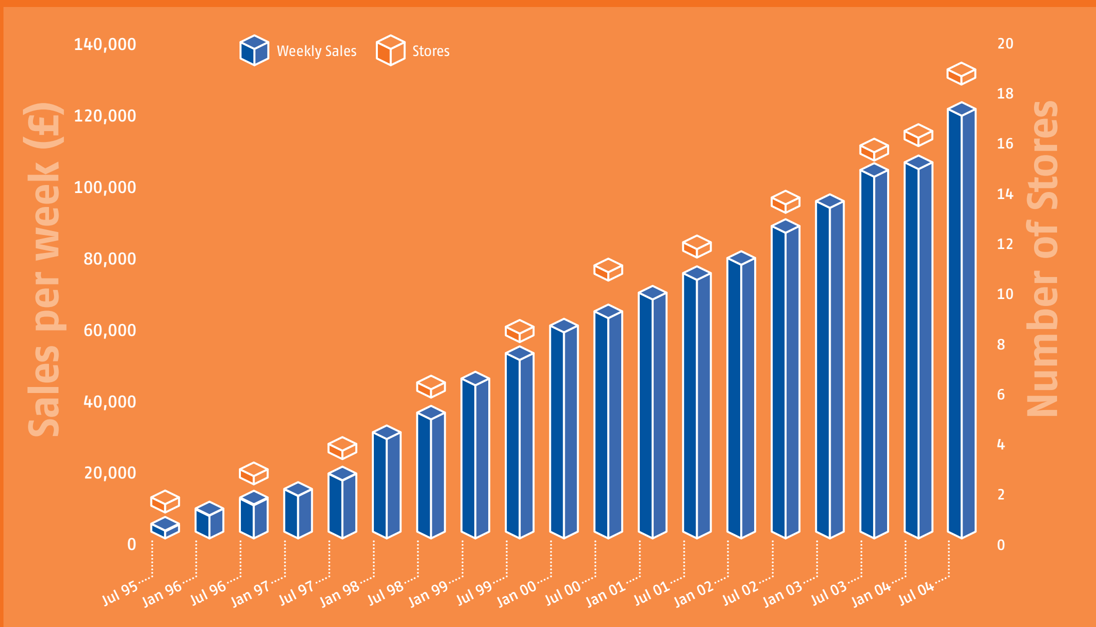
12 of the stores are now trading profitably at the pre-tax level and 14 have positive operating cash flow. I am pleased to report that even our older stores (over 250 weeks) increased revenue occupancy by 17.5% over the year, and there is still room to further increase this in the coming year.

The maturity profile across the stores open at the end of the year is set out in the Trading Summary. The new store at Farnborough will increase total capacity to 840,000 sq ft.

Security Issues

The safety and security of our customers and stores is our first priority. With today's heightened terrorist concerns this is of particular importance. To achieve this we invest in CCTV systems, intruder and fire alarm systems and the remote monitoring of our stores out of hours. We have rigorous security procedures in relation to customers. We have reviewed recent advice from the Metropolitan Police (circulated by the Self Storage Association to members) and have adapted our procedures where necessary to comply with their recommendations. Furthermore, we continue to review our operational procedures in terms of security and for example, our reception areas are monitored by cameras. The importance of security and the need for vigilance is

9 years of uninterrupted growth



communicated to all staff and reinforced through training.

A new store audit system was also implemented which has already proved its effectiveness in terms of improved security, credit control and store presentation.

Property and Construction

The total portfolio of stores and sites is now 20, of which 10 are held freehold. We are primarily focused on acquiring freeholds and where opportunities arise, we will seek to acquire the freehold of our leasehold stores. Indeed we have acquired the effective freehold of our Poole store during the year. However our overriding objective is to increase the number of stores we operate and are prepared to take leases where necessary. Over the years Lok'nStore has acquired the freehold interest in previously leased stores at Horsham, Reading and Poole.

This tactical approach, combines the early cash flow advantages of leasehold stores with the long-term income security and investment potential of freeholds.

Our new Farnborough Store is a freehold and will be purpose built. It is expected to open in Autumn 2005.

The Company continues to focus on the efficiency of our fitting out programme in order to bring forward the revenue stream and maximise the rate of return. We optimise the available space in new stores by fitting mezzanine floors and storage units as demand dictates, allowing revenue to be generated by renting open storage space, and thereby keeping tight control on capital expenditure until it is required.

Competitive Low Cost Base

These and other measures keep Lok'nStore's cost base competitively low at around £8.22 per sq ft for space available at year-end. Whether or not the self-storage market becomes price competitive this low cost base will be a continuing advantage. This can be reduced further by spreading marketing and head office costs across more stores as the Group continues to expand.

Operating Review
continued

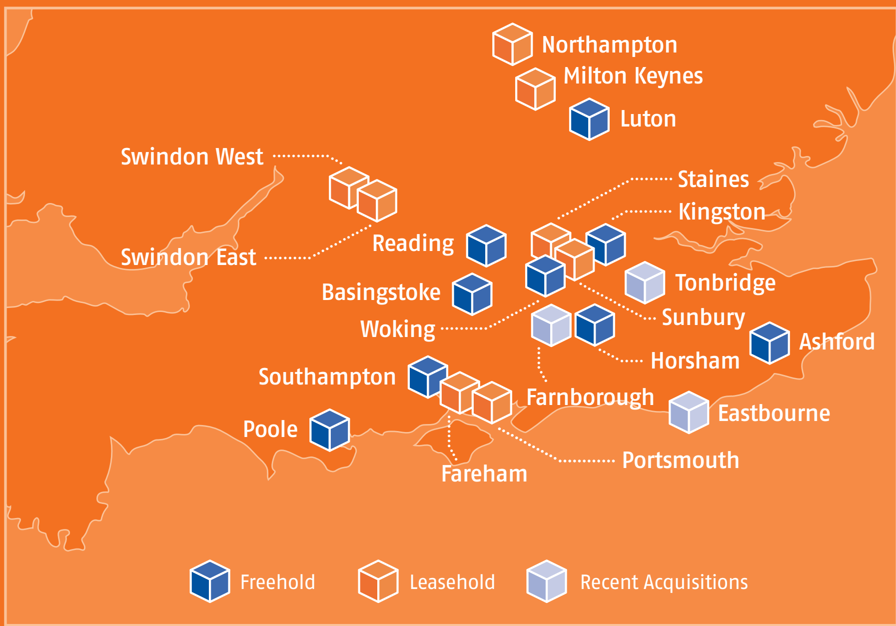
20 Stores

10 freehold

10 leasehold

Farnborough to open autumn 2005

20 stores acquired in 10 years



Marketing

During the year the Company spent approximately 5.4% of turnover on advertising and marketing. (2003: 5.4%). We anticipate our marketing costs remaining at these levels over the next year. All the marketing materials were reviewed and these initiatives contributed to Lok'nStore achieving a record increase in occupancy over the year of approximately 96,909 sq ft. Enquiries per store per week increased 15% over the previous 5-year average.

We have significantly improved the efficiency of our marketing data and reporting, which allows an increasingly focused approach. Our database has now been centralised which will enable our marketing efforts to be even more accurately targeted in the coming year. New stores will benefit from the marketing and promotion effort already applied to our existing stores.

Our new Farnborough store with its prominent site will raise the profile of the whole Lok'nStore brand, as well as becoming the focus for marketing our 5 stores along the M3 corridor (Sunbury, Woking, Farnborough, Basingstoke, and Southampton).

Systems

In last year's report we discussed our intention to focus our systems on "efficiency and timely data". This has resulted in a concentration of management reporting into one comprehensive monthly and one weekly report. The result has been a significant reduction in time spent compiling, printing and posting at the stores, together with a reduction of paper consumed. The reports contain more relevant and timely data which has facilitated an increasingly focused approach to our sales and marketing.

During the year we have introduced direct debit facilities, which will also reduce the administrative burden and use of paper at the stores. Of course this also is a positive service to our customers and reduces the time committed to credit management. Direct Debits are growing rapidly as a percentage of payment methods and

Enquiries up 28%

will contribute to capping our already low bad debt write-off level of less than 1/4% of total turnover.

In consultation with Trading Standards, the Self Storage Association and our own Counsel we have introduced a new customer occupancy licence, which by clarifying the rights and obligations of Lok'nStore and its customers enhances our ability to enforce our lien, which is likely to further improve our credit control systems.

People

At 31 July 2004 we had 92 employees. Attracting and retaining the right people is critical to the success of Lok'nStore. We are committed to providing a positive attitude in the business and an enjoyable working environment. Lok'nStore encourages all staff to build their skills through appropriate training and regular performance monitoring. We now run regular training courses to support these objectives. The development of the Central Sales Team and the Central Support Team provide a progressive career path for all staff.

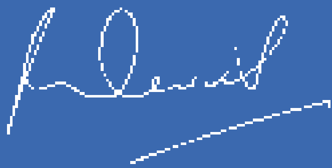
All employees are eligible to participate in share ownership plans after 3 months of employment and 40% of our employees have EBT shares or options. 28 of the staff are members of the contributory pension scheme.

I would like to thank all of our staff for their contribution to a successful year. The continuing progress of the Group is being achieved as a result of their efforts and hard work.

Andrew Jacobs
Chief Executive
2 November 2004

Financial Review

Ray Davies
Finance Director



"Increased capital expenditure totalling some £5.4m reflects the Group's commitment to growing its business through a combination of site acquisition (£4.3m) and investing in our existing stores (£1.1m)."

- During the financial year Lok'nStore has shown 17.8% growth in turnover to £6.6m (2003: £5.6m). The continuing growth during the year and since the year-end is demonstrated by the increase in annualised turnover to £7.7m;

- Demonstrating the cash generative nature of the business, EBITDA before exceptional items was up 15.2% to £0.83m (2003: £0.72m). Operating profit before exceptional items increased to £121,674 (2003: £77,190).

The exceptional costs during the year totalled £127,407:

- Of these costs, just under a half relates to termination payments made to senior managers, and all associated fees, as well as costs incurred relating to a bid approach;
- The remaining £68,561 relates to the compensation for loss of office of Christopher Stevens, who resigned as the Company's Finance Director on 25 September 2003.

The net interest charge increased from £39,309 to £162,501. This increase is a consequence of the Group utilising its bank facilities to acquire the head lease at Poole and the sites at Tonbridge and Farnborough, and to fund the buy back of shares. Year-end borrowings of £7.6m mean that the interest charge will rise significantly next year on a full-year charge.

The Group made a small loss of £41,697 before tax and exceptional items (2003: £34,704 Profit).

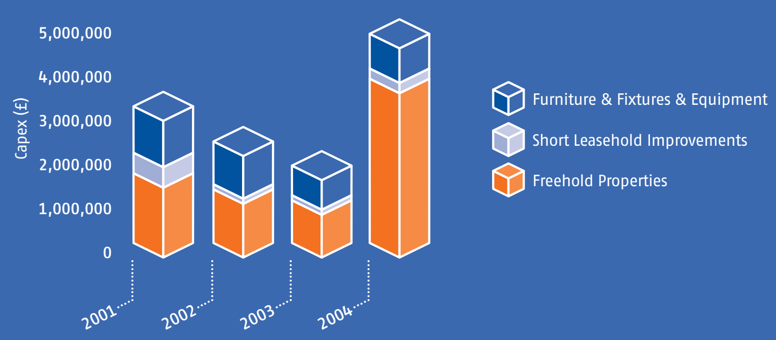
No charge to corporation tax arises as a result of the Group's loss in the year. Tax losses available to carry forward for offset against future profits amount to some £2.7m. In addition the business had capital losses available to carry forward of £362,636.

Earnings per share before exceptional items showed a loss of 0.16p per share.

Borrowings and Cashflow

The Group was cash positive at the year-end with net cash balances of £0.65m (2002: £1.1m). Cash flows from the Group remain encouraging, with increasing cash flows as turnover increases continuing to demonstrate the cash generative nature of the business. Cash Inflow from operating activities before interest and capital expenditure was just under £1m, compared to £0.3m for 2003. Increased capital expenditure totalling some £5.4m reflects the Group's commitment to growing its business through a combination of site acquisition (£4.3m)

Annual Capital Expenditure



and investing in our existing stores (£1.1m). At 31 July 2004, the Group had £7.6m of borrowings representing gearing of 66% on net debt of £6.95m.

Share-Buyback

Following approval by shareholders of a special resolution at the AGM on 27 November 2003, the Company has an ongoing general authority to make market purchases of up to 9,265,848 of its ordinary shares (less any shares purchased pursuant to a tender offer). This authority expires eighteen months after the date on which the resolution was passed unless renewed, varied or revoked by the Company in General Meeting.

On 23 March 2004, the Company purchased 3,420,549 of its Ordinary Shares of 1p for cancellation at a price of 112p per Ordinary Share leaving ongoing authority to make market purchases of up to 5,845,299 of its Ordinary Shares (subject to any Ordinary Shares purchased pursuant to a tender offer).

Of the shares cancelled, 500,000 were owned by the employee benefit trust.

After the cancellation, the total number of shares in issue reduced to 25,048,144 Ordinary Shares.

The Group will continue to use the remainder of this authority as appropriate in the best interests of shareholders.

Balance Sheet

Net assets at the year-end decreased to £10.6m (2003: £14.2m) reflecting the effect of the share buyback.

The employee benefit trust owns 627,500 (2003: 1,127,500) shares, the costs of which are shown as a deduction from shareholders' funds in accordance with Urgent Issues Task Force Abstract 38.

Financing

The Company signed a new £10m revolving credit facility in March 2004, which gives the Company the ability to make further purchase of its own shares as and if appropriate.

Treasury Management

All cash deposits are placed with Royal Bank of Scotland Plc on treasury deposit utilising either one-day or two-day money funds. The Group's cash position is reviewed daily and cash is transferred daily between these accounts and the Company's operational current accounts as required.

Liquidity

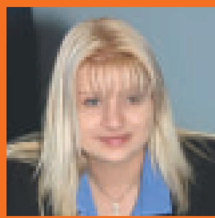
The £10m revolving credit facility agreed with The Royal Bank of Scotland Plc is a three-year committed facility and during the year the Company complied with all corresponding debt covenants.

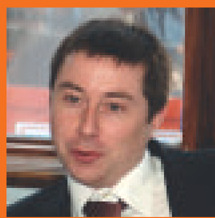
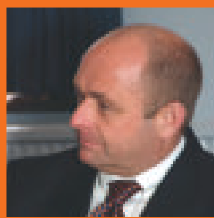
Ray Davies
Finance Director
2 November 2004

The Board of Directors and Management

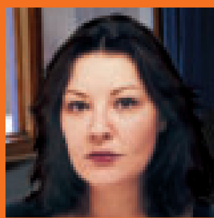










Executive Directors

1. Andrew Jacobs (45) *Chief Executive*
Established Lok'nStore in February 1995. An MPhil in Economics from Cambridge University and a BSc in Economics from the London School of Economics.

2. Simon Thomas (44) *Executive Chairman*
An Executive Director of Lok'nStore since 1997.

3. Ray Davies (47) *Finance Director*
Ray joined the Board of Lok'nStore in January 2004. A chartered accountant, he has held a number of senior finance positions in the construction and health & fitness sectors: he was previously Group Finance Director and Company Secretary of Dragons Health Clubs Plc. Following its acquisition by Crown Sports Plc in 2000, he was appointed Finance Director of Crown Sports Clubs Division and Company Secretary of Crown Sports Plc, a fully listed company.

4. Colin Jacobs (40) *Acquisitions Director*
Has been with Lok'nStore since its inception and a director since 1997.

Non-executive Directors

(not pictured)

Robert Ward Jackson (48)
Joined Lok'nStore during the year as a non-executive director. Robert is a qualified Chartered Accountant with extensive experience in investment banking in London, working with Messel and Charterhouse after qualifying at Coopers and Lybrand. Since 1994, Robert has had a wide range of experience in the quoted and unquoted arenas. More recently this included his role as Chief Executive of FII Group PLC.

Richard Holmes (44)
Director of Boots Health & Beauty previously Head of Strategy development for Unilever's worldwide dental business. MSc in economics and BSc in economics from the London School of Economics.

Marcus Stanton (48)
Previously the chief operating officer of Global Capital Markets at Robert Fleming & Co, now part of JP Morgan, and a Director in corporate finance at Hill Samuel. A graduate of Oxford University and a Chartered Accountant.

Management

5. Abigail Birks
Business Development Manager
6. Kevin Elster
Operations Manager
7. Martin Lawley
Business Development Manager
8. Jane Stafford
Sales & Marketing Manager
9. Sobayo Soyemi
Financial Controller
10. John Ogburn
Assistant Property Manager
11. Rhys Warren Thomas
Property Manager
12. Georgina Vause
Executive Assistant to the Board

Advisors

Directors

SG Thomas	Chairman
A Jacobs	Chief Executive
RA Davies	Finance Director
CM Jacobs	Director
RJ Holmes	Non-Executive Director
MJG Stanton	Non-Executive Director
RW Jackson	Non-Executive Director

Secretary
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Registered in England and Wales No. 4007169

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London EC2V 7QP

Auditors
Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

Solicitors
City Law Partnership
5 Old Bailey
London EC4M 7JX

Registrars
Capita Registrars
Capita Group Plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

The directors submit their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2004.

Principal Activity

The principal activity of the Group during the year was that of providing business and household self-storage and related services.

Review of the Business and Future Developments

These are dealt with in the Chairman's Statement.

Dividend

The directors do not recommend the payment of a dividend.

Directors

The following directors have held office during the year and subsequently:

A Jacobs
SG Thomas
RA Davies
CJR Stevens (resigned 25 September 2003)
CM Jacobs
RJ Holmes
MJG Stanton
RW Jackson

RW Jackson was appointed a non-executive director on 8 January 2004, and RA Davies was appointed finance director on 19 January 2004. In accordance with the Company's Articles of Association and both being eligible, they offer themselves for re-election at the next Annual General Meeting.

Directors' Interests in Shares

Directors' interests in the shares of the Company, including family interests, were as follows:

	Ordinary shares of 1p each	
	31 July 2004	On appointment or 31 July 2003
A Jacobs	**5,314,000**	5,439,000
SG Thomas	**2,437,500**	2,500,000
RA Davies	**–**	–
RJ Holmes	**95,000**	95,000
MJG Stanton	**27,000**	27,000
CM Jacobs	**12,496**	12,496
RW Jackson	**–**	–

Additionally, Andrew Jacobs and Simon Thomas are two of the three beneficiaries of a pension fund that holds 460,425 Lok'nStore ordinary shares.

The Company was notified on 29 June 2004 that the Aylestone Pension Fund has sold 25,000 ordinary shares in the Company at 110p with a resultant holding of 264,575 (31.07.03: 289,575) ordinary shares representing 1.06% of the issued share capital. Colin Jacobs, a director of Lok'nStore is interested in this transaction by being one of three beneficiaries of the Aylestone Pension Fund.

Details of directors' share options are disclosed in notes 23, 24 and 26.

Substantial Shareholdings

The directors have been notified, or are aware that the following are interested in 3% or more of the issued ordinary share capital of the Company as at 12 October 2004:

	Number of ordinary shares of 1p each	Percentage of issued Share Capital
A Jacobs	5,314,000	21.2
SG Thomas	2,437,500	9.7
Universities Superannuation Scheme	2,263,779	9.0
Gartmore Investment Management	2,290,819	9.2
North Atlantic Value LLP	2,150,000	8.6
Canada Life	900,000	3.6
Artemis Investment Management	825,000	3.3

Policy on Payment of Creditors

The Company does not follow any formal code or standard on payment practice. The Company's policy, which is also applied by the Group, is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment practice, whereby all outstanding trade accounts are settled within the terms agreed with the supplier at the time of the supply or otherwise 30 days from invoice date.

During the period the average credit taken from suppliers by the Group was 33 days (2003: 41 days).

Market Valuation of Freehold Land and Buildings

On 31 January 2004, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, in respect of all freehold land and properties held by the Group as operational self-storage businesses. This Report was prepared on the basis of Market Value/Existing Use Value, as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was ignored. The Report indicated a total value of £20.1 million. This is £10.2 million in excess of the net book value of freehold property and land as disclosed in the Group's interim financial statements as at 31 January 2004.

Directors' Report *continued*

Environmental Policy

Our environmental policy, which is circulated to all our staff, is to manage our waste, control our polluting emissions and to encourage our suppliers to minimise their impact on the environment.

We continue to build on progress made last year following implementation of the Trucost Environmental System. This has provided us with a measure of our overall environmental impact, including that of our supply chain, and has identified areas where we have focussed our efforts. The minimisation of emissions of greenhouse gases, and in particular carbon dioxide, is our greatest priority and we are in the process of gathering data from our vehicles and heating boilers so that we can establish a baseline against which to improve our performance over time. We remain committed to reducing emissions resulting from supplied electricity, and as such over 40% of our properties are supplied by Green Energy plc, a provider of renewable energy. Next year we aim to report on emissions caused by the consumption of fuels (vehicles and boilers), and on the progress we are making with respect to recycling our waste.

Share Capital

The Board believed that there was an opportunity to return some capital to Shareholders, whilst also preserving Lok'nStore's ability to continue to grow organically and by acquiring new sites.

On 23 March 2004, the Company purchased 3,420,549 of its 1 pence ordinary shares for cancellation at a price of 112p per ordinary share, for a total consideration of £4,004,950 (incl. costs). This represented 12% of the Company's issued share capital. Following the purchase the number of shares in issue reduced to 25,048,144. Further details are given in the Financial Review and in Note 17.

Annual General Meeting

The Company's Annual General Meeting will be held on 16 December 2004 at 10.00am at the offices of City Law Partnership, Fifth Floor, 5 Old Bailey, London EC4M 7JX.

A formal notice together with explanatory circular and Form of Proxy have been sent to shareholders.

Auditors

A resolution to appoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting.

By order of the Board

SG Thomas *Chairman*
2 November 2004

Corporate Governance

Introduction
The Combined Code is intended to promote the principles of openness, integrity and accountability. The Company fully supports these principles and although not required to do so, the directors have decided to provide Corporate Governance disclosures.

The Board formally adopted the principles of good governance set out in the Code. However, in view of the size and nature of the Group, the directors have taken into consideration the recommendations of the Guidance for Smaller Quoted Companies on the Code produced by the Quoted Companies Alliance. The Company's governance policies already in place matched closely the position set out in the Combined Code.

Narrative Statement
Directors

There is a Board of directors, which is set up to control the Company and consists of four executive and three non-executive directors. The Board considers all of the non-executive directors to be independent of the Group. SG Thomas is Chairman of the Board. During the year the Board adopted an updated policy on 'Matters reserved for the Board' and has a formal schedule of matters reserved for its consideration and decision. This schedule includes approval of financial strategy, major investments, review of performance, monitoring risk; ensuring adequate capital resources are available and reporting to shareholders. The full Board meets every three months to discuss a whole range of significant matters including strategic decisions, major acquisitions and Group performance. A procedure to enable directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all directors.

RJ Holmes continues as the senior independent director as required by the Code.

Each Board meeting receives the latest financial information available, which consists of detailed management accounts with the relevant comparisons to budget. A current trading appraisal is given by the executive directors.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which requires them to offer themselves for re-election at least once every three years. In the event of a proposal to appoint a new director, this would be discussed at a full Board meeting with each member being given the opportunity to meet the individual concerned prior to any formal decision being taken.

Directors' Remuneration

The Remuneration Committee, which consists of RJ Holmes (Chairman of the Committee) and MJG Stanton, has been strengthened during the year by the appointment of RW Jackson. The Committee meets and considers, within existing terms of reference, which were reviewed, and during the year, the remuneration policy and makes recommendations to the Board for each executive director. The Committee's remuneration policy aims to design a package that will align the interests of executive directors and those of shareholders. The executive directors' remuneration consists of a package of basic salary, bonuses, and share options, which are linked to corporate achievements and these levels are determined by the Remuneration Committee. The details of each director's remuneration is set out in the Notes to the Financial Statements on Page 26 under note 7.

The Committee meets once a year and considers proposals from the Chairman and Chief Executive.

Shareholders Relations

The Board has always sought good relations with the Company's shareholders. The directors meet and discuss the performance of the Group with shareholders during the year. Queries raised by a shareholder, either verbally or in writing, are promptly answered by whoever is best placed on the Board to do so. All directors are individually introduced to shareholders at the Annual General Meeting.

Accountability and Audit

The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects.

The Chairman's Statement contains a detailed consideration of the Group's position and prospects.

Internal Control

The Board is responsible for ensuring that the Group has in place a system of internal control. In this context, control is defined as those policies and processes established to ensure that business objectives are achieved cost effectively, assets and shareholder value are safeguarded, and laws, regulations and policies are complied with. Controls can provide reasonable but not absolute assurance that risks are identified and adequately managed to achieve business objectives and to minimise material errors, losses and fraud or breaches of laws and regulations.

The Group operates a strict system of internal financial control, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a comprehensive system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group.

Corporate Governance *continued*

The Group has been developing an internal audit function utilising operational management to make unannounced store visits as part of a process supported by audit control checklists and other procedures. This undertaking has contributed to sales by promoting efficient store management, but also addresses risk and credit control, cash and store banking and space and client management. The internal audit checks ensure any fraud or mismanagement is quickly identified.

The Group has put in place a whistle blowing procedure within its recently updated staff handbook, which is issued to all salaried staff. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

Going Concern

The directors can report that based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

Audit Committee

The Company has an established Audit Committee to whom the external auditors, Baker Tilly report. The Committee's terms of reference were reviewed and updated during the year. The Committee, which had consisted of MJG Stanton (Chairman of the Committee) and RJ Holmes, is strengthened by the appointment of RW Jackson. It is responsible for the relationship with the Group's external auditors and the review of the Group's financial reporting and the Group's internal controls.

The Committee meets a minimum of twice a year, prior to the announcement of Interim and Annual results and, should it be necessary, would convene at other times.

The Audit Committee also undertakes a formal assessment of the auditors' independence each year which includes:

- a review of non-audit services provided to the Group and related fees;
- discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner every 5 years;
- obtaining written confirmation from the auditors that, in their professional judgment, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 5 to the financial statements.

The Company is satisfied that the external auditors remain independent in the discharge of their audit responsibilities.

Compliance Statement

The Board supports the highest standards in corporate governance, appropriate to its size, and continues to review the Combined Code on Corporate Governance (July 2003) as well as the Company's procedures to maintain proper control and accountability.

The Board has reviewed compliance with the Combined Code. In common with many small companies, a nomination committee has not been established and appointments to the Board are decided on by the Board as a whole. The Chairman is not independent, as he is a substantial shareholder of the Company and was formerly the Chief Executive.

Throughout the year ended 31 July 2004, the Group has complied substantially with the other Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority.

By order of the Board

SG Thomas *Chairman*
2 November 2004

Directors' Responsibilities in the Preparation of Financial Statements

Company law requires the directors to prepare financial statements and other information in the annual report for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

a. select suitable accounting policies and apply them consistently;

b. make reasonable and prudent judgements and estimates;

c. state whether accounting standards have been followed, and give details of any departures;

d. prepare the accounts on a going concern basis unless in our view the Group and Company will be unable to continue in business.

They are also responsible for:

a. keeping proper accounting records;

b. safeguarding the Group's and Company's assets;

c. taking reasonable steps for the prevention and detection of fraud and other irregularities;

d. ensuring that our report and other information included in the annual report is prepared in accordance with company law in the United Kingdom;

e. for ensuring that the annual report includes information required by the rules of the Alternative Investment Market of the London Stock Exchange.

The maintenance and integrity of the web site is also the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Lok'nStore Group Plc

We have audited the financial statements of Lok'nStore Group Plc for the year ended 31 July 2004 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Operating Review, the Financial Review, the Directors' Report, the Corporate Governance Statement and the statement on the Directors' Responsibilities in the Preparation of Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Group and the Company as at 31 July 2004 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

2 November 2004

Consolidated Profit and Loss Account

for the year ended 31 July 2004

	Notes	2004 Before Exceptional Items £	2004 Exceptional Items Note 6 £	2004 Total £	2003 Restated £
Turnover	1	6,611,911	–	6,611,911	5,612,978
Operating expenses	2,6	(6,490,237)	(127,407)	(6,617,644)	(5,600,075)
Operating Profit/(Loss)		121,674	(127,407)	(5,733)	12,903
Loss on disposal of fixed assets		(870)	–	(870)	(404,078)
Interest receivable	3	36,950	–	36,950	61,748
Profit/(Loss) on Ordinary Activities before Interest Payable		157,754	(127,407)	30,347	(329,427)
Interest payable	4	(199,451)	–	(199,451)	(101,057)
Loss on Ordinary Activities before Taxation	5	(41,697)	(127,407)	(169,104)	(430,484)
Taxation	8	–	–	–	–
Loss for the year	18	(41,697)	(127,407)	(169,104)	(430,484)
Earnings per Share					
Basic	9	(0.16p)		(0.64p)	(1.57p)
Diluted	9	(0.16p)		(0.64p)	(1.57p)

The operating profit for the year arises from the Group's continuing operations.

No separate statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

Balance Sheets

31 July 2004

	Notes	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Fixed Assets					
Intangible assets	10	383,323	407,578	–	–
Tangible assets	11	18,162,957	13,398,636	–	–
Investments	12	–	–	214,563	214,563
		18,546,280	13,806,214	214,563	214,563
Current Assets					
Stocks	13	103,880	101,783	–	–
Debtors	14	1,948,711	1,527,779	5,994,621	9,982,571
Cash at bank and in hand		654,361	1,101,809	–	–
		2,706,952	2,731,371	5,994,621	9,982,571
Creditors: Amounts falling due within one year	15	(3,094,644)	(2,336,243)	–	–
Net Current (Liabilities)/Assets		(387,692)	395,128	5,994,621	9,982,571
Total Assets less Current Liabilities		18,158,588	14,201,342	6,209,184	10,197,134
Creditors: Amounts falling due after more than one year	16	7,600,000	–	–	–
		10,558,588	14,201,342	6,209,184	10,197,134
Capital and Reserves					
Called up share capital	17	250,481	284,687	250,481	284,687
Share premium account	18	21,496	9,912,447	21,496	9,912,447
Capital redemption reserve	18	34,205	–	34,205	–
Merger reserve	18	6,295,295	6,295,295	–	–
Other distributable reserve	18	5,903,002	–	5,903,002	–
Profit and loss account	18	(1,436,305)	(1,267,201)	–	–
ESOP shares	19	(509,586)	(1,023,886)	–	–
Shareholders' Funds	20	10,558,588	14,201,342	6,209,184	10,197,134

Approved by the Board of Directors on 2 November 2004 and signed on its behalf by

A Jacobs *Chief Executive*

RA Davies *Finance Director*

Consolidated Cash Flow Statement

for the year ended 31 July 2004

	Notes	2004 £	2003 £
Cash flow from operating activities	21a	**934,854**	292,975
Returns on investments and servicing of finance	21b	**(122,163)**	(39,309)
Taxation		**–**	–
Capital expenditure and financial investment	21b	**(5,429,344)**	(1,288,293)
Cash outflow Before Financing		**(4,616,653)**	(1,034,627)
Financing	21b	**4,169,204**	(7,990,904)
Decrease in cash in the Period		**(447,449)**	(9,025,531)

Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt)

	Notes	2004 £	2003 £
Decrease in cash in the period		**(447,449)**	(9,025,531)
Change in net debt resulting from cash flows		**(7,597,153)**	(7,144,431)
Movement in Net (Debt)/Funds in Period		**(8,044,602)**	(1,881,100)
Net Funds at 1 August		**1,098,814**	2,979,914
Net (Debt)/Funds at 31 July	21c	**(6,945,788)**	1,098,814

Accounting Policies

Basis of Accounting
The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

The accounting policies adopted have been applied consistently from year to year, except for the treatment of the investment in the Company's own shares. In accordance with the principles of Urgent Issues Task Force Abstract 38, the shares held by the Group's employee benefit trust are deducted from shareholders funds. Previously the shares were treated as an investment. The comparatives have been restated to accord with this new accounting policy. This change in policy has no impact on the reported results of the Group, but reduces the Group's net assets as at 31 July 2004 by £509,586 (2003: £1,023,886).

Basis of Consolidation
The Group accounts consolidate the accounts of the Company and its subsidiaries for the year to 31 July 2004.

No profit and loss account is presented for Lok'nStore Group Plc as provided by Section 230(3) of the Companies Act 1985. There were no transactions in the profit and loss account of the Company during the period.

Purchased Goodwill
Goodwill representing the excess of the purchase price compared with the fair value of assets acquired is capitalised and written off over 20 years as in the opinion of the directors this represents the period over which the goodwill is effective. Provision is made for any impairment.

Investments
Shares in subsidiary undertakings are considered long-term investments and are classified as fixed assets. All investments are stated at cost. Provision is made for any impairment in the value of fixed asset investments.

Tangible Fixed Assets
Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Freehold	over 50 years straight line
Short leasehold improvements	over the unexpired lease period
Fixtures, fittings and equipment	on 10% to 15% reducing balance
Motor vehicles	on 25% reducing balance
Computer equipment	over 2 years straight line

The directors carry out regular impairment reviews of the freehold and leasehold buildings in accordance with FRS11. Provisions for impairments in value are taken to the profit and loss account.

Stock
Stock is valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling prices less any costs of disposal. Provision is made for obsolete and slow moving items.

Turnover
Turnover, which excludes value added tax, is derived from the continuing operations of the Group.
Self-storage fees and related income are recognised as turnover in the in the profit and loss evenly on a time apportioned basis over the period to which they relate.

Accounting Policies *continued*

Deferred Taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leased Assets and Obligations
Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions Contributions
Pension costs are all to defined contribution schemes which are independently administered. The amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the contributions payable in the year.

Employee Benefit Trust
The Group operates an employment benefit trust and has de facto control of the shares held by the trust and bears their benefits and risks. The Group records certain assets and liabilities of the trust as its own. Finance costs and administrative expenses are charged as they accrue.

ESOP Shares
The cost of own shares held by the employee benefit trust ("ESOP shares") is shown as a deduction from shareholders funds. Earnings per share are calculated on the net shares in issue.

Notes to the Financial Statements

for the year ended 31 July 2004

1 Turnover

The Group's turnover was all derived from its principal activity of self-storage and related services undertaken wholly in the United Kingdom and is stated net of value added tax.

2 Operating Expenses

	2004 £	2003 £
Administration expenses		
Recurring expenses	**6,490,237**	5,535,788
Exceptional expenses (see note 6)	**127,407**	64,287
	6,617,644	5,600,075

3 Interest Receivable

	2004 £	2003 £
Bank interest	**36,950**	61,748

4 Interest Payable

	2004 £	2003 £
Finance leases	**794**	3,403
Bank loans	**198,657**	97,654
	199,451	101,057

5 Loss on Ordinary Activities before Taxation

	2004 £	2003 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible fixed assets:		
– owned assets	**664,006**	620,077
– leased assets	**147**	1,758
Amortisation of goodwill	**24,255**	24,254
Operating lease rentals:		
– Land and buildings	**1,178,549**	1,013,487
Exceptional items (see note 6)	**127,407**	64,287

Auditors' remuneration

	2004 £	2003 £
Audit services		
– statutory audit	**22,000**	22,000
Further assurance services	**3,000**	3,000
Tax services		
– compliance services	**6,500**	6,500
– advisory services	**19,500**	2,500
Other services		
– corporate finance work in respect of share buyback	**8,000**	–
– corporate finance work in respect of new bank facility	**30,000**	–
	89,000	34,000

The above fees have been expensed, capitalised or charged to the distributable reserve as appropriate.

6 Exceptional Items

	2004 £	2003 £
Termination payments	**20,246**	–
Professional fees re: bid approach	**38,600**	–
Director's compensation for loss of office	**68,561**	64,287
Loss on disposal of Swindon freehold	**–**	400,901
	127,407	465,188

Exceptional costs of £127,407 arose from termination payments to the former finance director and senior managers, and all associated fees, as well as professional fees relating to the approach to the Group.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

7 Employees

	2004 £	2003 £
The average monthly number of persons (including directors) employed by the Group during the year was:		
Store management	**70**	65
Administration	**20**	18
	90	83

	2004 £	2003 £
Staff costs for the above persons:		
Wages and salaries	**2,063,253**	1,733,057
Social security costs	**197,541**	155,618
Pension costs	**25,555**	43,671
	2,286,349	1,932,346

In relation to pension contributions, there was £2,444 (2003: £1,805) outstanding at the year-end.

Directors' Remuneration

2004	Emoluments £	Fees* £	Bonuses £	Benefits £	Loss of office £	Gain on share options £	Total £
A Jacobs*	75,000	50,000	25,000	1,488	–	–	151,488
SG Thomas*	120,000	5,000	25,000	1,447	–	–	151,447
RA Davies **	40,385	–	5,000	–	–	–	45,385
CJR Stevens	43,494	–	–	993	66,663	–	111,150
CM Jacobs	47,500	–	7,000	1,290	–	–	55,790
RJ Holmes	15,000	–	–	–	–	–	15,000
RW Jackson	8,423	–	–	–	–	–	8,423
MJG Stanton	15,000	–	–	–	–	–	15,000
	364,802	55,000	62,000	5,218	66,663	–	553,683

2003	Emoluments £	Fees* £	Bonuses £	Benefits £	Loss of office £	Gain on share options £	Total £
A Jacobs*	75,000	6,250	–	1,488	–	–	82,738
SG Thomas*	120,833	6,250	–	1,447	–	–	128,530
SGM Houston	85,620	–	10,000	490	51,595	–	147,705
CJR Stevens	102,500	–	10,000	984	–	–	113,484
CM Jacobs	48,833	–	4,000	1,290	–	5,748	59,871
RJ Holmes	10,000	–	–	–	–	–	10,000
MJG Stanton	12,500	–	–	–	–	–	12,500
	455,286	12,500	24,000	5,699	51,595	5,748	554,828

* During the year services totalling £105,000 (2003: £12,500) were provided by Value Added Services Limited, a company in which Andrew Jacobs, Simon Thomas et al have a beneficial interest. The amount paid to Value Added Services Limited has been disclosed as fees and bonus within directors' emoluments with the payment of £105,000 being split between Andrew Jacobs and Simon Thomas as shown in the table above. See Note 28 on 'Related Party Transactions' for further information.

** £5,000 Bonus attributed to RA Davies was paid to Davies-Elise Consulting Limited, a company owned by RA Davies.

Pension contributions of £11,104 (2003: £26,479) were paid by the Company on behalf of 1 (2003: 2) director(s). The highest paid director did not accrue any pension rights during the year.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

8 Taxation

There is no Corporation Tax or deferred tax charge due to the availability of accumulated losses.

The tax assessed is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 **£**	2003 £
Loss on ordinary activities before tax	**(169,104)**	(430,484)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	**(50,731)**	(129,145)
Expenses not deductible for tax purposes	**7,492**	18,084
Capital allowances for period in excess of depreciation	**(52,506)**	(96,540)
Accounting loss on disposal of capital assets	**–**	121,223
Losses carried forward	**95,745**	86,378
Current tax charge for the period	**–**	–

The Group has revenue tax losses of approximately £2.7 million available to carry forward against future taxable profits of the same trade. No value is ascribed to these losses, due to the uncertainty as to the utilisation of the losses in the foreseeable future.

Future tax charges may be affected by the degree to which deferred tax assets are subject to recognition in the future.

9 Earnings per Ordinary Share

The calculations of earnings per share are based on the following profits and numbers of shares.

	2004 **£**	2003 £
Loss for the financial year before exceptional items	**(41,697)**	34,704
Loss for the financial year	**(169,104)**	(430,484)

	2004 **No. of shares**	2003 No. of shares
Weighted average number of shares		
For basic earnings per share	**26,300,997**	27,341,193
Exercise of share options	**1,135,584**	1,169,855
For diluted earnings per share	**27,436,581**	28,511,048

The exercise of share options would give rise to a reduction in the losses per share. This is not considered to be dilutive.

10 Intangible Fixed Assets – Purchased Goodwill

Group	Total £
Cost	
1 August 2003	485,093
Additions	
31 July 2004	485,093
Amortisation	
1 August 2003	77,515
Charged in year	24,255
31 July 2004	**101,770**
Net book value	
31 July 2004	**383,323**
31 July 2003	407,578

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

11 Tangible Fixed Assets

Group	Freehold properties £	Short leasehold improvements £	Furniture, fixtures & fittings £	Motor vehicles £	Total £
Cost					
1 August 2003	8,569,900	1,223,961	5,590,634	71,985	15,456,480
Additions	4,435,680	308,841	685,123	–	5,429,644
Transfers	64,438	(64,438)	–	–	–
Disposals	–	–	–	(7,875)	(7,875)
31 July 2004	**13,070,018**	**1,468,364**	**6,275,757**	**64,110**	**20,878,249**
Depreciation					
1 August 2003	243,144	309,620	1,473,428	31,652	2,057,844
Charged in year	66,083	116,381	472,685	9,004	664,153
Transfers	41,266	(41,266)	–	–	–
Disposals	–	–	–	(6,705)	(6,705)
31 July 2004	**350,493**	**384,735**	**1,946,113**	**33,951**	**2,715,292**
Net book value					
31 July 2004	**12,719,525**	**1,083,629**	**4,329,644**	**30,159**	**18,162,957**
31 July 2003	8,326,756	914,341	4,117,206	40,333	13,398,636

The additions to freeholds includes the acquisition of the head leasehold interest in Lok'nStore's Poole site (the 'Head lease') for £2.7 million. The Head lease contains an irrevocable option to purchase the freehold of the site for the sum of £1 exercisable at any time after 20 August 2010.

The net book value of fixtures and fittings includes £1,392 (2003: £16,685) in respect of assets held under finance leases.

Market Valuation of Freehold Land and Buildings

On 31 January 2004, professional valuations were prepared by Cushman & Wakefield Healey & Baker, in respect of all freehold land and properties held by the Group as operational self-storage businesses. This Report was prepared on the basis of Market Value/Existing Use Value, as appropriate, in accordance with the RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was ignored. The Report indicated a total value of £20.1 million. This is £10.2 million in excess of the net book value of freehold property and land as disclosed in the financial statements as at 31 January 2004. Since the date of their Report, a freehold site in Farnborough was acquired for £1.6 million and the Poole site for £2.7 million.

12 Investments

Company	Shares in subsidiary undertakings £
Cost	
At 1 August 2003 and 31 July 2004	
Lok'nStore Limited	214,563

The Company holds more than 20% of the share capital of the following companies, all of which are incorporated in England and Wales:

Subsidiary undertakings	Class of shareholding	% of shares held Directly	% of shares held Indirectly	Nature of business
Lok'nStore Limited	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited	Ordinary	–	100	Trustee Company

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

13 Stocks

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Consumables and goods for resale	**103,880**	101,783	**–**	–

14 Debtors

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Due within one year:				
Trade debtors	**642,095**	518,956	**–**	–
Other debtors	**217,783**	54,623	**837**	1,295
Amounts owed by subsidiaries	–	–	**5,993,784**	9,981,276
Prepayments and accrued income	**1,088,833**	954,200	**–**	–
	1,948,711	1,527,779	**5,994,621**	9,982,571

15 Creditors: Amounts falling due within one year

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Trade creditors	**1,010,063**	837,233	**–**	–
Obligations under finance leases	**148**	2,995	**–**	–
Taxation and social security costs	**61,971**	149,391	**–**	–
Corporation tax	**45,700**	–	**–**	–
Other creditors	**656,194**	484,673	**–**	–
Accruals and deferred income	**1,320,568**	861,951	**–**	–
	3,094,644	2,336,243	**–**	–

16 Creditors: Amounts falling due after more than one year

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Bank loans repayable in more than two years but not more than five years	**7,600,000**	–	**–**	–

The bank loans are secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business together with cross-company guarantees of Lok'nStore Limited. The revolving credit facility is for a three-year term and expires on 22 March 2007. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter Bank Offer Rate (LIBOR).

17 Share Capital

	2004 £	2003 £
Authorised:		
35,000,000 ordinary shares of 1p each (2002: 35,000,000)	**350,000**	350,000
Allotted, issued and fully paid:		
25,048,144 ordinary shares of 1p each (2003: 28,468,693)	**250,481**	284,687

At the Company's EGM on 5 September 2003, shareholders gave approval for a buy-back of shares, the cancellation of the share premium account and its corresponding conversion into a distributable reserve.

On 23 March 2004,the Group purchased 3,420,549 of its ordinary shares of 1p for cancellation at a price of 112p per ordinary share leaving ongoing authority to make market purchases of up to 5,845,299 of its ordinary shares. The authority expires on 26 May 2005, this being 18 months after the Annual General Meeting at which the authority to purchase the shares was granted.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

18 Reserves

	Share premium £	Merger reserve £	Other Distributable reserve £	Capital Redemption reserve £	Profit and loss account £	Total £
1 August 2003	9,912,447	6,295,295	–	–	(1,267,201)	14,940,541
Cancellation of share premium	(9,907,951)	–	9,907,951	–	–	–
Purchase of own shares	–	–	(4,004,949)	34,205	–	(3,970,744)
Exercise of Share Options	17,000	–	–	–	–	17,000
Loss for the year	–	–	–	–	(169,104)	(169,104)
31 July 2003	**21,496**	**6,295,295**	**5,903,002**	**34,205**	**(1,436,305)**	**10,817,693**

The merger reserve represents the excess of the nominal value of the shares issued by Lok'nStore Group Plc over the nominal value of the share capital and share premium of Lok'nStore Limited as at 31 July 2001.

19 ESOP Shares

	Group 2004 Number	Group 2003 Number	**Group 2004 £**	Group 2003 £
1 August 2003	**1,127,500**	127,500	**1,023,886**	172,917
Purchased in the year	**–**	1,000,000	**–**	850,967
Sold in the year	**(500,000)**	–	**(514,300)**	–
31 July 2004	**627,500**	1,127,500	**509,586**	1,023,886

The ESOP shares are held by the employee benefit trust (see note 27). The disposals in the year arose from the Group's buyback of shares.

20 Reconciliation of Movement in Shareholders' Funds

	Group 2004 £	Group 2003 £
Opening shareholders' funds		
As previously stated	**15,225,228**	15,651,216
Prior year adjustment	**(1,023,886)**	(172,917)
As restated	**14,201,342**	15,478,299
Loss for the financial period	**(169,104)**	(430,484)
Exercise of share options	**17,000**	4,496
Purchase of ESOP shares (note 19)	**–**	(850,967)
Gross purchase and cancellation of own shares (inclusive of expenses) (note 17 &18)	**(4,004,950)**	–
Purchase and cancellation of own shares from employee benefit trust (note 19)	**514,300**	–
Net movement in shareholders' funds for the year	**(3,642,754)**	(1,276,955)
Closing shareholders' funds	**10,558,588**	14,201,342

Opening shareholders' funds have been restated following the adoption of Urgent Issues Task Force Abstract 38, which requires that shares held by the employee benefit trust be treated as ESOP shares and their cost deducted from shareholders' funds.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

21 Cash Flows

a Reconciliation of operating profit to net cash inflow from operating activities

	2004 £	2003 £
Operating (loss)/profit	**(5,733)**	12,903
Depreciation	**664,153**	621,835
Amortisation	**24,255**	24,254
Increase in stocks	**(2,097)**	(38,816)
Increase in debtors	**(420,932)**	(271,677)
Increase/(decrease) in creditors	**675,208**	(48,710)
Exceptional Item	**–**	(6,814)
Net cash flow from operating activities	**934,854**	292,975

b Analysis of cash flows for headings netted in the cash flow

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	**36,950**	61,748
Interest paid	**(158,319)**	(97,654)
Interest element of finance lease rental payments	**(794)**	(3,403)
Net cash outflow for returns on investments and servicing of finance	**(122,163)**	(39,309)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(5,429,644)**	(2,324,045)
Proceeds from sale of tangible fixed assets	**300**	1,035,752
Net cash outflow for capital expenditure and financial investment	**(5,429,344)**	(1,288,293)
Financing		
Bank loans	**7,600,000**	(7,130,998)
Capital element of finance lease rental payments	**(2,847)**	(13,433)
Exercise of share options	**17,000**	4,496
Purchase of ESOP shares	**–**	(850,967)
Purchase of own shares (incl. costs)	**(3,444,949)**	–
Net cash inflow/(outflow) from financing	**4,169,204**	(7,990,704)

c Analysis of net debt

	At 31 July 2003 £	Cash flow £	Other non cash changes £	At 31 July 2004 £
Cash at bank and in hand	1,101,809	(447,448)	–	**654,361**
Debt due after 1 year	–	(7,600,000)	–	**(7,600,000)**
Finance leases	(2,995)	2,847	–	**(148)**
Total	1,098,814	(8,044,602)	–	**(6,945,788)**

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

22 Commitments under Operating Leases

At 31 July 2004 the annual commitments under non-cancellable operating leases were as follows:

	Group 2004 £	Group 2003 £	**Company 2004 £**	Company 2003 £
Land and buildings				
expiring within one year	**80,000**	50,000	**–**	–
expiring in the second to fifth year	**192,492**	192,492	**–**	–
expiring after five years	**1,014,198**	952,568	**–**	–
	1,286,690	1,195,060	**–**	–

23 Share Option Agreements

Following admission to AIM, the following share options were granted in year ended 31 July 2000:

	As at 31.7.03	Granted £	Exercised £	**As at 31.7.04**	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	992,978	–	–	**992,978**	37	04.04.02	03.04.07
SG Thomas	496,489	–	–	**496,489**	37	04.04.02	03.04.07
CM Jacobs	153,000	–	–	**153,000**	37	04.04.02	03.04.07
P Crisp	142,000	–	20,000	**122,000**	38	04.04.02	03.04.07

The total number of share option agreements outstanding at the year-end was 1,764,467 as outlined above. The criteria for exercising these options are as follows:

1 Group turnover exceeds £5 million.
2 Share price exceeds 150p.
3 Control of the Company changes.

24 Enterprise Management Initiative Scheme

The Company operates a share option scheme under the Enterprise Management Initiative ("EMI"). The following share options have been granted to directors of the Company under the EMI scheme:

	As at 31.7.03	Granted £	Exercised £	**As at 31.7.04**	Exercise price (pence)	Date from which exercisable	Expiry date
CM Jacobs	25,540	–	–	**25,540**	191	30.04.04	30.04.09
CM Jacobs	–	25,000	–	**25,000**	102	20.01.07	20.01.14
CM Jacobs	–	22,759	–	**22,759**	113	30.07.07	30.07.14
RA Davies	–	98,039	–	**98,039**	102	19.01.07	19.01.14

A further 52,618 (2003: 52,500) options were granted to key management for an exercise price of 93.5p and a further 163,103 options for an exercise price of 113p during the year. The total number of EMI options outstanding as at the year-end were 529,056. The table below summarises those options not held by directors:

Date from which exercisable	Options Held (No)	Exercise Price (p)
30.04.04	84,281	191
30.05.04	2,554	176
13.06.04	2,554	178
01.10.04	5,108	140
31.10.05	47,500	93
27.11.06	52,618	93.5
30.07.06	163,103	113
	357,718	

The share options granted will only be exercisable upon the achievement of one of the following performance criteria:

1 The turnover for any period commencing after the date of grant has exceeded £10 million.
2 The profits for any period commencing after the date of grant has exceeded £3 million.
3 The share price has exceeded £5.

or the change of control of the Company.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

25 Approved Share Option Scheme

No share options were granted under this scheme during the year (2003: Nil).

The share options granted will only be exercisable upon the achievement of one of the following performance criteria:
1 Group turnover exceeds £5 million.
2 Share price exceeds 150p.
3 Control of the Company changes.

Since year ended 31 July 2002, the Company's turnover has exceeded £5 million. The total number of approved options outstanding as at the year-end was 22,377 (2003: 41,835). The table below summarises those options not held by directors:

Date from which exercisable	Options Held (No)	Exercise Price (p)
08.07.02	13,621	73
31.05.03	8,756	171
	22,377	

26 Unapproved Share Options

The Company issues unapproved share options. The following unapproved share options have been granted to directors of the Company:

	As at 31.7.03	Granted £	Exercised £	**As at 31.7.04**	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	–	50,000	–	**50,000**	102	20.01.07	20.01.14
A Jacobs	–	50,000	–	**50,000**	113	30.07.07	30.07.14
SG Thomas	–	50,000	–	**50,000**	102	20.01.07	20.01.14
SG Thomas	–	50,000	–	**50,000**	113	30.07.07	30.07.14
RA Davies	–	1,961	–	**1,961**	102	20.01.07	20.01.14
RA Davies	–	50,000	–	**50,000**	113	30.07.07	30.07.14
CM Jacobs	–	2,241	–	**2,241**	113	30.07.07	30.07.14

A further 50,000 options were granted to Value Added Services Limited, during the year for an exercise price of 113p. Value Added Services Limited is a company in which Andrew Jacobs, and Simon Thomas have a beneficial interest.

The total number of unapproved options outstanding as at the year-end was 361,277 (2003: 96,014). The table below summarises those options not held by directors:

Date from which exercisable	Options Held (No)	Exercise Price (p)
08.07.02	13,621	73
31.05.03	11,674	171
31.10.05	15,000	93
27.11.06	4,882	106
30.07.07	11,898	113
	57,075	

The share options exercisable from 8 July 2002 and 31 May 2003 will only be exercisable upon the achievement of one of the following performance criteria:
1 Group turnover exceeds £5 million.
2 Share price exceeds 150p.
3 Control of the Company changes.

Since year ended 31 July 2002, the Company's turnover has exceeded £5 million.

All other options will only be exercisable upon the achievement of one of the following performance criteria:
1 The turnover for any period commencing after the date of grant has exceeded £10 million.
2 The profits for any period commencing after the date of grant has exceeded £3 million.
3 The share price has exceeded £5.

or the change of control of the Company.

Notes to the Financial Statements *continued*

for the year ended 31 July 2004

27 Employee Benefit Trust

The Group operates an Employee Benefit Trust ("EBT") under a settlement dated 8 July 1999 between Lok'n Store Limited and Lok'nStore Trustee Limited, constituting an employees share scheme.

Funds are placed in the trust by way of employees' salaries as they so instruct for purchase of shares in the Company. The loan does not attract interest and is repayable within one year.

Following the Company's purchase of its own shares, as at 31 July 2004, the Trust held 627,500 ordinary shares of 1p each with a market value of £709,075. No dividends were waived during the year. No options have been granted under the EBT.

28 Related Party Transactions

During the year the Company entered into a service agreement for strategic services with Value Added Services Limited, a Company in which Andrew Jacobs, Simon Thomas et al have a beneficial interest. The total fees payable to Value Added Services Limited are as per the emoluments shown in note 7. There was £110,385 outstanding due to Value Added Services Limited at the year-end and represented the maximum balance outstanding during the year.

29 Financial Instruments

The Group's financial instruments comprise bank borrowings and facilities, cash and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors that arise directly from its operations, which have not been included in the following disclosures.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Exchange Rate Risk

The Group operates in the United Kingdom and as such substantially all of the Group's financial assets and liabilities are denominated in Sterling and there is no exposure to exchange risk.

Interest Rate Risk

The Group's policy on interest rate management is agreed at Board level and is reviewed on an ongoing basis. All borrowings are denominated in Sterling. The Group has a number of revolving loans within its overall revolving credit facility and overdraft and as such is exposed to interest rate risks at the time of renewal arising from any corresponding upward movement in the LIBOR rate.

The following interest rates applied:

a. LIBOR for the revolving advances amounting to £7.6 million;
b. 1.75% above Royal Bank of Scotland Bank plc Base Rate for overdraft utilisation.

Cash balances held in current account attract no interest but surplus cash is transferred daily to 'one-day' or 'two-day' treasury deposits and attract interest at the prevailing money market rates.

Liquidity Risk

It is the Group's policy to finance its business by means of internally generated funds supported by the Group's bankers and raising capital. The Group is cash positive in its operating activities and is expected to continue to be for the foreseeable future. Facilities are regularly reviewed by the Board, which will consider carefully liquidity risk for any future acquisitions.

Facilities

As at the balance sheet date the Group has a committed revolving credit facility and overdraft of £10 million (2003: £10 million). This facility expires in 22 March 2007. Undrawn committed facilities at the year-end amounted to £2,400,000.

Fair value

There is no material difference between the fair value of borrowings and other financial interests and their book value at the balance sheet date.

30 Guarantees

The Group has capital expenditure contracted for but not provided for in the financial statements of £221,275 (2003: Nil). The outstanding commitments relate to the fitting out of existing stores with 60% of the total cost relating to the Tonbridge store.

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that company had bank borrowings of £7.6 million.

Notes

Notes

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