Lok'nStore Group Plc

Annual Report & Accounts 2005

LOK'nSTORE
Business & Household Self Storage

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

Financial Highlights

- Turnover £7.77m – up 17.6%
- EBITDA £1.36m – up 68%
- Operating cash flow £1.98m – up 112%
- New £20m banking facility
- Properties valued at £33.6m at 31 January 2005 (NBV £18.4m)

10 years of uninterrupted growth

Operational Highlights

- Storage centres EBITDA £2.48m – up 41%
- Operating profit £607k up from an operating loss
- Annualised revenues up to £8.48m
- Good sales growth in established and in new storage centres
- Number of customers 6,715 up 20.6%
- Increased occupancy by 83,417 sq. ft. – up 17.7%
- Opened Tonbridge centre

21 storage centres across the southeast

£33.6M property valuation at 31 January 2005

Property Highlights

- Increased capacity to 920,000 sq. ft.
- Building Farnborough centre
- Acquired Crayford centre
- 11 Freeholds:10 Leaseholds
- Planning permission granted at Kingston for residential development

Chairman's Statement

Substantial **growth** in shareholder value

Overview

I am pleased to report that Lok'nStore has again made good progress against its stated objectives. The operating performance of our existing centres has continued to improve. We have increased the value of our existing centres and we have acquired new sites. During the year we have revalued all of our properties and signed a new £20m bank facility.

Lok'nStore's focus on growth has again underpinned satisfactory results. Enquiries, turnover, profits and operating cash in flows have all increased.

The acquisition and build-out of sites in Farnborough and in Crayford, and the continued investment in our existing centres, reflect our positive view of the market. We are looking forward to opening these two highly visible new centres around the turn of the year.

We believe that the UK self-storage market offers great potential for Lok'nStore.

Sales & Earnings Growth

Turnover for the year was £7.77m (2004: £6.61m), an increase of 17.6%, with annualised revenues now reaching £8.48m demonstrating the continued growth of the business. The Group made an operating profit for the year of £606,961 compared with a loss of £5,733 in 2004. The Group made a pre-tax profit for the year of £114,325 compared with a loss of £169,104 in 2004.

Demonstrating the growing cash-flow of the operating business, EBITDA from the storage centres was £2.48m and cash flow from operating activities grew from £0.93m to £1.98m.

At 31 July 2005, the number of customers had risen to 6,715 from 5,566 at 31 July 2004, an increase of 20.6% over the year.

Our established centres have continued to grow alongside the more rapid sales increases at our newest centres. Centres trading for more than 250 weeks grew (snapshot) revenue by 9.7 %, centres with 100 to 250 weeks' trading grew 22.2%, while newer centres trading for less than 100 weeks grew at 113%.

Lok'nStore's 11 most established centres (over 250 weeks old) made EBITDA margins of 48%, demonstrating the strong underlying profitability of the business.

New Centres

During the year we opened a new centre in Tonbridge, obtained planning permission and started construction on our new centre in Farnborough, and acquired a new centre in Crayford. They are all located in attractive markets with high visibility and provide 167,000 net sq. ft. This will take the total number of our centres to 21 with 920,000 sq. ft. of net storage space when fully completed.

Following the exercise of an option to purchase the freehold of our Poole centre, we have now fitted out a further 12,000 net sq. ft. providing the centre with total capacity of 64,000 sq. ft.

Our objective continues to be to increase our number of centres within the current geographical coverage of South-East England.

Property Assets

Our trading freehold and leasehold centres were valued at 31 January 2005. This report valued our trading properties at £31.84m. Including the Farnborough site, the total valuation is £33.6m compared to a net book value of £18.4m. These valuations do not include any uplift for alternative use with planning permission obtained at Kingston, nor do they include the value of the Crayford site, other investment in established centres since January 2005, or the build-out costs at Farnborough.

During the year we were pleased to obtain planning permission for a high-density residential development at our existing Kingston site. The permission is for 124 flats and a new 7,000 square feet GP's surgery. This potentially creates much greater value than can be obtained as a self-storage site. The management are making progress towards realising this value.

+17.6%

sales growth

New Bank Facility

Lok'nStore Group Plc has agreed a new £20m revolving credit facility at a reduced interest margin. The new facility replaces the previous £10m facility and provides sufficient additional liquidity for the Group's immediate expansion plans. Interest payable on the loan is on improved terms, paying between 1.25% and 1.35% over LIBOR.

The facility is secured on the existing self-storage portfolio, excluding the Kingston and Reading properties. Following the signing of this new facility, the management is confident that the Group has full flexibility to maximise the value of any potential exit or realisation of these two redevelopment opportunities and that the Group is in a position to continue to grow its self-storage business.

Self-Storage in The UK

The UK self-storage market continues to grow rapidly and offers a great opportunity, particularly to the major operators with specialist skills.

The more mature US market, grew from 2.9 sq. ft. per member of the population in 1994 to 5 sq. ft. in 2004. Despite this increase in capacity, the average weekly price for a 100 sq ft. unit has increased by 45% between 2000 and 2004*(* Source: Pramerica Real Estate Investors). The population density of the US is only 32 per square kilometre against 246 in the UK. This creates far more pressure to use property resources efficiently in the UK, which is a driver of demand for self-storage.

Lok'nStore is now one of only two quoted storage operators in the UK, ranked fourth in size in the UK and sixth in Europe.

Lok'nStore People

Andrew Jacobs, as Chief Executive Officer, is supported by an experienced executive team. Our storage centre personnel are committed and motivated and help maintain the levels of friendly service that Lok'nStore gives its customers, which, we believe, is exemplary.

I would therefore like to thank all of the people who work both in our head office and in our centres for their commitment to our business and for their hard work. Their continued efforts will provide us with the necessary platform for our ongoing success.

Outlook

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. Growing turnover from existing centres and growth in the number of centres are combining to produce attractive growth and profits.

Our priorities are to further improve the operating performance of existing centres; to enhance the value of existing centres; to grow the number of centres; and to optimise the Group's capital structure.

I believe that Lok'nStore's market position, leading brand, and active management team will continue to deliver substantial growth in shareholder value.

Simon G Thomas
Chairman
28 October 2005

48%

EBITDA margin at centres opened for more than 250 weeks

Good progress against objectives

Improving… the operating performance of existing centres

+17.6%

sales up year on year

Let area up by 83,417 sq. ft. Number of customers up 20.6%. Sales up 17.6%. Operating expenses up 8.3%.

Enhancing… the value of existing centres

£33.6M

property valuation

Poole storage centre freehold acquired. 67,000 sq. ft. of new space fitted in the year. Property valuations, based on trading storage centres, increased to £33.6m.

Growing… the number of centres

21

centres now acquired

Farnborough & Crayford storage centres to open winter 2005, adding an extra 128,000 sq. ft. of lettable space. Tonbridge centre opened August 2004.

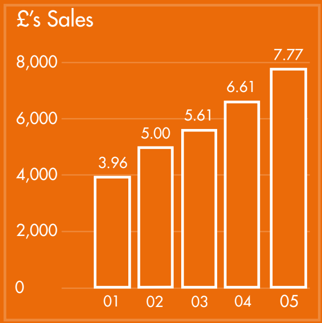
Optimising… the Group's capital structure

£20M

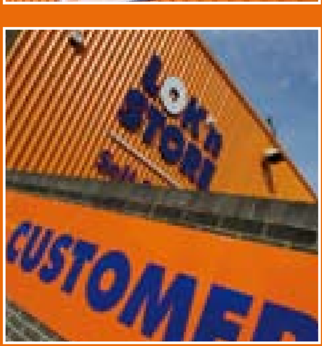
revolving bank facility

Lok'nStore Group Plc has agreed a new £20m revolving credit facility at a reduced interest margin. The new facility replaces the previous £10m facility.

Sales have been pushed up in the last year by more competitive marketing, better sales training, performance-related bonus schemes, high conversion rates, income/yield management and more space provided for rental. While sales were up 17.6%, operating expenses were only up 8.3%.

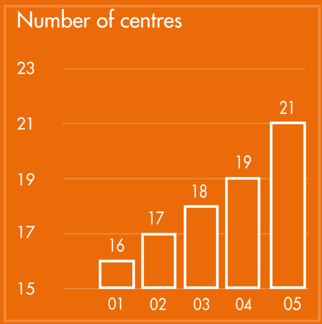


Lok'nStore continues to look to opportunities to increase the value of our existing centres. Buying the freehold, as at Poole, is a good example. The property valuations of our eight freehold centres were valued at £20.1m at 31 January 2004. These centres were valued at 31 January 2005 at £22.84m representing an uplift of 13.6%.

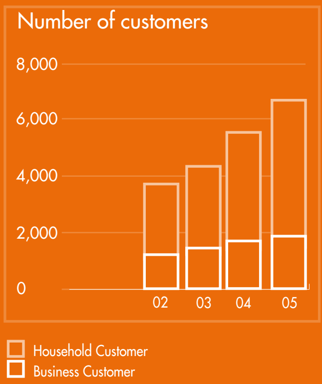


11 of our 21 centres are owned freehold by the Group accounting for 56.5% of lettable space, with the remainder as leasehold. Our acquisition strategy remains driven by prospective rates of return, site location and visibility.

We remain committed to finding new, high quality self-storage sites.



The £20m revolving bank facility is secured on the existing self-storage portfolio excluding the Kingston and Reading sites. With the new facility the Company has full flexibility to maximise the value of its Kingston and Reading sites and is in a position to continue to grow its self-storage business.



Operating Review

The focus on **standards** delivers growth

In the last year…

- 48% EBITDA margin for established centres (open for more than 250 weeks)
- Occupied space of 555,445 sq. ft. – increased by 83,417 sq. ft.
- Opened a new centre in Tonbridge
- 14 centres are now trading profitably at the pre-tax level
- 17 centres have positive operating cash flow

+20.6%

more customers

Sales Performance

We have continued to raise operational standards and to focus centre personnel on taking responsibility for increasing turnover. This work has continued to improve the consistency of performance across the centres. Our central sales team are now running more frequent and improved sales training courses. In addition, we regularly review 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 remains very high.

During the year we increased occupied space by 83,417 sq. ft. (17.7%), with total occupied space at 31 July 2005 of 555,445 sq. ft. (2004: 472,028 sq ft). We have included a table summarising the trading performance of all our centres over the year, analysed between centres open less than 100 weeks, between 100 and 250 weeks, and more than 250 weeks at the end of the period.

Both first generation, converted buildings and modern, well-located centres continue 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 centres. Also, encouragingly, revenue occupancy of these 11 older centres (over 250 weeks) increased 9.7% on the year. We believe there is room for further increases with new space still to be fitted out in some of these centres in addition to improving income from existing space.

Lok'nStore's established centres (over 250 weeks old) achieved EBITDA margins of 48%.

During the year we opened our new Tonbridge centre, bringing the number of centres trading to 19. Total capacity is currently 792,000 sq. ft. With the new centres at Crayford and Farnborough coming on stream in Winter 2005/06 the number of centres trading will be 21 and will increase total capacity to 920,000 sq. ft.

14 of the centres are now trading profitably at the pre-tax level (2004:12) and 17 have positive operating cash flow (2004:14).

Packing materials, insurance and other sales increased 11% over the year accounting for 7.7% of turnover.

42.6%

of turnover from business customers

Marketing

The Company spent 6.4% approx. of turnover on advertising and marketing (including postage, printing and stationery) (2004: 7.7%). Our marketing costs should remain at these levels over the coming years. Marketing resources and efforts have been upgraded, and this contributed to Lok'nStore achieving another excellent increase in occupancy over the year of 83,417 sq. ft, up 17.7% on the previous year, whilst reducing pro-rata costs.

We are still reviewing new and better opportunities in the media and through local marketing efforts and each of these shows progress. New centres will benefit from the marketing and promotion effort already applied to our existing centres.

Work on centre visibility is also improving response to our marketing. Our new Farnborough centre with its prominent design and position adjacent to the M3 motorway will help to raise the profile of the whole Lok'nStore brand. We are conspicuous in our directory advertising, which is targeted in all of the areas in which our stores operate, and produces a significant proportion of our enquiries.

We apply coordinated sales and marketing messages and our storage centre personnel are as involved as our head office, which ensures our expenditure remains effective.

Systems

During the year we have increased the penetration of direct debit facilities, which reduces the administrative burden and use of paper and postage at the centres, as well as being a positive service to our customers and reducing the time committed to credit management.

The current focuses are on greater systems centralisation, greater audit capability and a continued focus on efficient and timely data.

The new centre audit system has been effective in terms of improved security, credit control and centre presentation.

Security Issues

The safety and security of our customers and centres remains a high priority. With today's heightened terrorist concerns this is of particular importance. We already invest in CCTV systems, intruder and fire alarm systems and the remote monitoring of our centres out of hours and we have rigorous security procedures in relation to customers.

Furthermore, we are currently reviewing our security resources and we are upgrading our security in line with up-to-date equipment, for example, colour CCTV monitors of greater capability and detail.

The importance of security and the need for vigilance is communicated to all personnel and reinforced through our various training procedures.

Our People

At 31 July 2005, we had 94 employees.

Attracting, retaining and encouraging the right people
is key 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 personnel to build their skills through appropriate training and regular performance monitoring. Regular training courses support these objectives.

All employees are eligible to participate in share ownership plans after 3 months of employment and 38% of our employees have EBT shares or options. 45% of the personnel are members of the contributory pension scheme.

I would like to thank all of our people 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.

Investing in new and existing centres

Property and Construction

The total portfolio of centres and sites is now 21, of which 11 are held freehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold centres. Indeed, we achieved the early exercise of our option to purchase the freehold interest in our Poole centre during the year, and this also allowed an expansion of the space available by 12,000 sq. ft. to a total of 64,000 sq. ft.

However, our overriding objective is to increase the number of storage centres we operate and we are comfortable to take leases on appropriate terms.

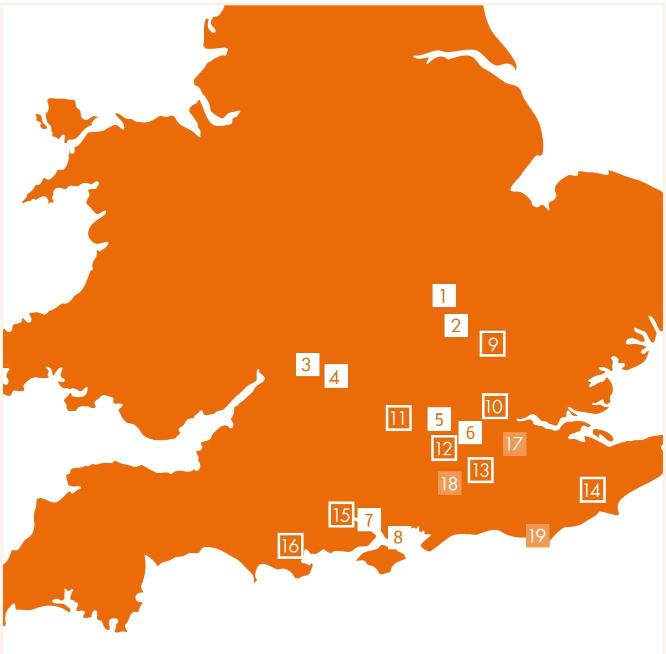
Our new Farnborough Centre is a freehold and will be our first purpose-built centre. It will open in January 2006. Our new freehold centre in Crayford is currently being fitted out and is expected to open in December 2005. These centres are located within our existing geographical coverage and will be managed by our existing sales team.

The Company continues to focus on the efficiency of our fitting out programme in order to bring forward the revenue stream and maximise our rate of return. We optimise the available space in new centres by fitting mezzanine floors and storage units as customer demand dictates. This allows revenue to be generated by utilising open storage space, and thereby keeping tighter control on capital expenditure until it is required. Over the year under review we fitted out a further 67,000 sq. ft. of self-storage units.

Subject to market conditions, it is our current aim to acquire between 2 and 4 centres per annum. Our current average centre size is around 40,000 net sq. ft. and this may increase for new centres up to 60,000 net sq. ft. The exact timing of centre openings will largely depend on market availability, and we will retain our disciplined and flexible approach to site acquisition.

Centre Analysis

The map below shows the centres by location and by freehold, leasehold and recent acquisitions.



- Leasehold
- Freehold
- Recent Acquisitions

1. Ashford
2. Basingstoke
3. Crayford
4. Eastbourne
5. Fareham
6. Farnborough
7. Horsham
8. Kingston
9. Luton
10. Milton Keynes
11. Northampton
12. Poole
13. Portsmouth
14. Reading
15. Southampton
16. Staines
17. Sunbury
18. Swindon East
19. Swindon West
20. Tonbridge
21. Woking

16%

more capacity added by Farnborough and Crayford

Maturity Analysis

	July 05				
Weeks old	Over 250	100 to 250	Under 100	To be opened in 2005/06	Total
Sales (£'000)	4,813	2,398	437		7,648
Stores EBITDA (£'000)	2,307	349	–179		2,477
EBITDA MARGIN (%)	47.9	14.6	–41.0		32.4
Maximum net area ('000 sq. ft.)	423	289	80	128	920
Freehold	7	2	0	2	11
Leasehold	4	4	2	0	10
Total centres	**11**	**6**	**2**	**2**	**21**

Customer Analysis

At the end of July 42.6% of our turnover was from business customers (28.6% by number) and 57.4% was from household customers (71.4% by number).

Andrew Jacobs
Chief Executive Officer
28 October 2005

Financial Review

Generating cash

Trading

During the financial year Lok'nStore has shown 17.6% growth in turnover to £7.77m (2004: £6.61m). The continuing growth during the year and since the year-end is shown by the increase in annualised turnover to £8.48m.

Demonstrating the cash generative nature of the business, EBITDA was up 68% to £1.36m (2004: £0.81m before exceptional items). Operating profit increased to £606,961 (2004: Loss: £5,733).

There were no exceptional costs this year (2004; £127,407).

Credit control remains tight with £36,000 of bad debts written off during the year representing less than 0.5% of turnover.

The net interest charge increased from £162,501 to £492,636. This increase is a consequence of the Group utilising its bank facilities to acquire the freehold sites at Farnborough and Crayford, the continuing fit-out programme at our existing stores, and the full year effect of the share buy back implemented in March 2004. Year-end borrowings of £8.15m together with outstanding expenditure on the Farnborough and Crayford build-outs mean that the interest charge will rise significantly next year on a full-year charge.

The Group made a profit on ordinary activities before tax of £114,325 (2004: £169,104 loss).

No charge to corporation tax arises as a result of the Group's tax loss in the year. Tax losses available to carry forward for offset against future profits amount to some £3m. In addition the business had capital losses available to carry forward of £362,636.

Basic earnings per share was 0.47p per share (2004: loss of 0.16p per share before exceptional items: loss of 0.64p per share after exceptional items).

Borrowings & Cash Flow

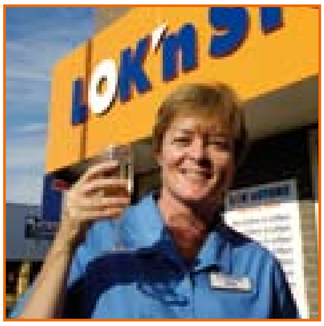
Cash flows from the Group remain encouraging, with increasing cash flows as turnover increases continuing to demonstrate the cash generative nature of the business. The Group had cash balances at the year-end of £0.42m (2004: £0.65m).

Cash Inflow from operating activities before interest and capital expenditure was £1.98m, compared to £0.93m for 2004. Capital expenditure totalling some £2.6m reflects the Group's commitment to growing its business through a combination of site acquisition and related works (£1.1m) and investing in our existing stores (£1.5m). At 31 July 2005, the Group had £8.15m of borrowings representing gearing on a NBV basis of 72% on net debt of £7.73m. Gearing, when adjusted on the basis of the Group's revalued stores, drops to 22%.

Buyback Authority

At the Company's AGM on 16 December 2004, shareholders gave approval to replace the existing share buy-back authority. This authority will be sought annually at the Company's annual general meeting each year. The authority is restricted to a maximum of 5,845,299 Ordinary Shares, which is equivalent to 23.3% of the Company's issued share capital and is equal to the number of shares available for purchase under the previous authority. The buy-back authority will only be exercised in circumstances where the Directors regard such purchases to be in the best interests of Shareholders as a whole and is subject to the waiver of Rule 9 by the Panel of Takeovers and Mergers being approved by the Shareholders.

The total number of shares in issue is 25,071,144 Ordinary Shares.



£33.6M
property valuation

£1.98M
cash inflow from operations

Property assets

	Valuation £m	NBV £m
Properties valued 31.01.05 by 'CWHB'	31.84	16.69
Farnborough – at cost	1.76	1.76
Total	33.6	18.45

	Uplift %	31 Jan 05 £m	31 Jan 04 £m
Valuation (8 freehold Centres)	13.6	22.84	20.10

Balance Sheet

Net assets at the year-end increased to £10.7m (2004: £10.6m).

The Employee Benefit Trust owns 627,500 (2004: 627,500) shares, the costs of which are shown as a deduction from shareholders' funds in accordance with Urgent Issues Task Force Abstract 38.

On 31 January 2005, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, ('CWHB') in respect of all trading freehold and leasehold properties as operational self-storage businesses. The freehold land at Farnborough, acquired on 30 July 2004 was not valued on this occasion, as building works had not commenced.

This Report was prepared on the basis of Market Value/Existing Use Value, having regard to its trading potential as appropriate, in accordance with RICS Appraisal and Valuation Standards, but on the special assumption that any potential for residential development was excluded. (See note 11 in the notes to the accounts for a more detailed description of valuation methodology).

The Report indicates a total for properties valued of £31.84m. Including Farnborough, (NBV £1.76m), this gives a total value of properties held of £33.6m (NBV £18.4m). These valuations have not been included in the Balance Sheet. These valuations do not account for any further uplift in values, which would result from the planning permission achieved for residential at the Kingston site, nor any successful outcome of the planning application for residential at the Reading site. These valuations also do not account for any further uplift arising from the acquisition of the Crayford site or further investment in existing centres since January 2005 and in particular the further build-out works to the Farnborough centre, which is under development. While the Company does not envisage routinely revaluing its properties it will do so when appropriate.

Over the years Lok'nStore has acquired the freehold interest in previously leased centres at Horsham, Reading and Poole. This tactical approach combines the early cash flow advantages of leasehold centres with the long-term income security and investment potential of freeholds. Eight of our 10 leaseholds are within the terms of the 1954 landlord and tenant act giving a degree of security of tenure. The average length of the leases was 11.1 years at the date of the 2005 Valuation (Source: 'CWHB').

Financing & Liquidity

The Company has signed a new £20m revolving credit facility at a reduced interest margin for the Group. The new facility replaces the previous £10m facility and provides sufficient additional liquidity for the Group's immediate expansion plans. Interest payable on the loan is on improved terms, paying between 1.25% and 1.35% over LIBOR. Non-utilisation charges have also been reduced to 0.25% on the value of the undrawn facility. Undrawn committed facilities at the year-end amounted to £11,850,000.

The facility is secured on the existing self-storage portfolio, excluding the Kingston and Reading properties. This ensures that the Group has full flexibility to maximise the value of any potential exit or realisation of these two redevelopment opportunities, as well as using the proceeds in the best interests of Shareholders.

The £20m revolving credit facility agreed with The Royal Bank of Scotland Plc is a five-year committed facility and during the year the Company complied with all corresponding debt covenants.

Treasury

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. During the year the Company obtained improved terms on its treasury deposit rates.

Ray Davies
Finance Director
28 October 2005

Board of Directors and Management

Management (top to bottom, left to right)

Abigail Birks
Personnel & Sales Support Manager

Kevin Elster
Operations Manager

Martin Lawley
Associate Director Sales

Jane Stafford
Associate Director Sales

Sobayo Soyemi
Financial Controller

John Ogburn
Facilities Manager

Rhys Warren Thomas
Associate Director Property

Executive Directors

Andrew Jacobs (46)
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.

Simon Thomas (45)
Chairman
An Executive Director of Lok'nStore since 1997.

Ray Davies (48)
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.

Colin Jacobs (41)
Director
Has been with Lok'nStore since its inception and a Director since 1997.

Non-Executive Directors

Robert Ward Jackson (49)
Non-Executive Director
Joined Lok'nStore in January 2004 as a Non-Executive Director. Robert is a qualified Chartered Accountant with extensive experience in investment banking in London. 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 (45)
Non-Executive Director
Former 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 (51)
Non-Executive Director
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.

Advisers

Company Registration No. 4007169

Directors

S G Thomas	Chairman
A Jacobs	Chief Executive
R A Davies	Finance Director
C M Jacobs	Director
R J Holmes	Non-Executive Director
M J G Stanton	Non-Executive Director
R W Jackson	Non-Executive Director

Management

A Birks	Personnel & Sales Support Manager
K Elster	Operations Manager
M Lawley	Associate Director Sales
S Soyemi	Financial Controller
J Stafford	Associate Director Sales
J Ogburn	Facilities Manager
R Warren-Thomas	Associate Director Property

Secretary and Registered Office

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5 Old Bailey
London EC4M 7JX

Registered in England and Wales No. 4007169

Nominated Adviser and Broker

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London EC2V 7QP

Auditors

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

Solicitors

Maclay Murray Spens/
City Law Partnership
5 Old Bailey
London EC4M 7JX

Registrars

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

Bankers

The Royal Bank of Scotland Plc
Thames Valley Corporate
Business Centre
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

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 2005.

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, however the Board will keep this matter under periodic review.

Directors

The following directors have held office during the year and subsequently:
A Jacobs
S G Thomas
R A Davies
C M Jacobs
R J Holmes
M J G Stanton
R W Jackson

In accordance with the Company's Articles of Association Andrew Jacobs and Simon Thomas retire by rotation 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 2005	On appointment or 31 July 2004
A Jacobs	**5,314,000**	5,314,000
S G Thomas	**2,437,500**	2,437,500
R A Davies	**–**	–
R J Holmes	**95,000**	95,000
M J G Stanton	**27,000**	27,000
C M Jacobs	**15,000**	12,496
R W 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 4 November 2004 that the Aylestone Pension Fund had sold 50,000 ordinary shares in the Company and on 15 December 2004 that the Aylestone Pension Fund has sold 50,000 ordinary shares in the Company with a resultant holding of 164,573 (31 July 2004: 264,575) ordinary shares representing 0.66% 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 11 October 2005:

	Number of ordinary shares of 1p each	Percentage of issued Share Capital
A Jacobs	5,314,000	21.2
Mercury Real Estate Advisors LLC	3,354,764	13.4
S G Thomas	2,437,500	9.7
North Atlantic Smaller Companies Investment Trust plc/ Oryx International Growth Fund Ltd	2,100,000	8.4
Gartmore Investment Management	1,723,452	6.9
Universities Superannuation Scheme	1,403,799	5.6
Charles Stanley	1,175,525	4.7

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.

At the year-end the credit taken from suppliers by the Group was 57 days (2004: 33 days).

Market Valuation of Freehold Land and Buildings

On 31 January 2005, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, in respect of all trading freehold and leasehold properties as operational self-storage businesses. The freehold site at Farnborough, acquired on 30 July 2004, was not valued on this occasion as building had not yet commenced. This Report was prepared on the basis of Market Value/Existing Use Value, having regarded its trading potential as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was excluded. (See note 11 in the notes to the accounts for a more detailed description of valuation methodology).

The Report indicates a total for properties valued of £31.84m. Including Farnborough (NBV £1.76m), this gives a total value of properties held of £33.6m as at 31 January 2005. (NBV £18.4m at 31 January 2005). These valuations do not account for any further uplift in values, which would result from the planning permission achieved for residential at the Kingston site, nor any successful outcome of the planning application for residential at the Reading site. These valuations also do not account for any further uplift arising from the acquisition of the Crayford site or further investment in existing stores since January 2005, and in particular the further build-out works to the Farnborough store, which is under development. While the Company does not envisage routinely revaluing its properties it will do so when appropriate.

Environment

Introduction

The Group is committed to minimising adverse environmental impacts. The new Operating and Financial Review and the EU Accounts Modernisation Directive regulations came into force this year. The Board is following the new standards in this year's annual report which require companies to consider their environmental impacts. It is our assessment that the Group is not exposed to any significant environmental risk. We believe, however, that by measuring, managing and communicating our environmental performance we are inherently well placed to understand how to improve our processes, reduce costs and comply with current and future regulatory requirements.

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.

Environmental Management and Performance

We continue to build on the progress made last year using the Trucost Environmental System, which has provided us with a measure of our overall environmental impact, including that of our supply chain. We have focused our efforts specifically on our greenhouse gas emissions (including energy use), water use and waste, which Trucost have identified as our key environmental performance indicators in line with the Department for Environment, Food and Rural Affairs' (Defra) Environmental Reporting Guidelines for UK Business. The minimisation of emissions of greenhouse gases, and in particular carbon dioxide, is our greatest environmental priority. This year we have started to measure emissions caused by the consumption of fuels (vehicles and boilers) and the electricity we use. This data provides us with a baseline against which to improve our performance over time. We have set a target of reducing our indirect CO_2 by 4% on a normalised basis. Our commitment to reducing emissions is underlined by our continued use of Green Energy plc, a provider of renewable energy, who supplies 46% of our electricity.

Environmental Key Performance Indicators (for period covering Financial Year 2005)

Direct Impacts (Operational)

Greenhouse gases	Definition	Data source and calculation methods	Quantity Absolute	Quantity Normalised*
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	88 tonnes CO_2	11 tonnes CO_2/£m
Vehicle fuel	Petrol and diesel used by staff and van hire fleet.	Expense claims and MOT recorded mileage, converted according to Defra Guidelines.	92 tonnes CO_2	12 tonnes CO_2/£m
Total			180 tonnes CO_2	23 tonnes CO_2/£m

Waste	Definition	Data source and calculation methods	Quantity Absolute	Quantity Normalised*
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metals.	Volume of waste generated per annum, calculated by recording the number of bins and skips removed, converted to tonnes according to Defra Guidelines.	913 tonnes	119 tonnes/£m
Recycled	General office waste recycled, primarily cardboard.	Volume of waste recycled per annum, calculated by recording the number of bins and skips removed for recycling, converted to tonnes according to Defra Guidelines.	24 tonnes	3 tonnes/£m

Indirect Impacts (Supply Chain)

Greenhouse gases	Definition	Data source and calculation methods	Quantity Absolute	Quantity Normalised*
Energy use	Directly purchased electricity, which generates greenhouse gases including CO_2 emissions.	Yearly consumption of directly purchased electricity in kWh, converted according to Defra Guidelines.	863 tonnes CO_2	112 tonnes CO_2/£m

Water	Definition	Data source and calculation methods	Quantity Absolute	Quantity Normalised*
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	5,143 m^3	668 m^3/£m

*Normalised by unit emission per million of 2005 annualised revenues of £7.7m.

Directors' Report

Share Capital
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 1 December 2005 at 10.00am at the offices of Maclay Murray Spens/City Law Partnership, Fifth Floor, 5 Old Bailey, London EC4M 7JX.

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

A formal notice together with explanatory circular and Form of Proxy will be sent to shareholders.

By order of the Board

SG Thomas
Chairman
28 October 2005

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. S G Thomas is Chairman of the Board and it 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.

R J 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 R J Holmes (Chairman of the Committee), M J G Stanton and R W 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 25 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.

The Group continues to develop the 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 a whistle blowing procedure within its 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 consists of M J G Stanton (Chairman of the Committee), R J Holmes and R W 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 five years.
- Obtaining written confirmation from the auditors that, in their professional judgement, 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 2005, 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

Simon G Thomas
Chairman
28 October 2005

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; and
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; and
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 website 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 website.

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 Auditors' Report to the Members of Lok'nStore Group Plc

Auditors' 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 2005 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 2005 and of the Group's profit 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
28 October 2005

Consolidated Profit and Loss Account

for the year ended 31 July 2005

	Notes	2005 £	2004 £
Turnover	1	**7,774,541**	6,611,911
Operating expenses	2,6	**(7,167,580)**	(6,617,644)
Operating Profit/(Loss)		**606,961**	(5,733)
Loss on disposal of fixed assets		**–**	(870)
Interest receivable	3	**35,898**	36,950
Profit on Ordinary Activities before Interest Payable		**642,859**	30,347
Interest payable	4	**(528,534)**	(199,451)
Profit/(Loss) on Ordinary Activities before Taxation	5	**114,325**	(169,104)
Taxation	8	**–**	–
Profit/(Loss) for the Year	18	**114,325**	(169,104)
Earnings Per Share			
Basic	9	**0.47p**	(0.64p)
Diluted	9	**0.44p**	(0.64p)

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 2005

	Notes	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Fixed Assets					
Intangible assets	10	**359,068**	383,323	**–**	–
Tangible assets	11	**20,032,760**	18,162,957	**–**	–
Investments	12	**–**	–	**214,563**	214,563
		20,391,828	18,546,280	**214,563**	214,563
Current Assets					
Stocks	13	**88,648**	103,880	**–**	–
Debtors	14	**1,684,793**	1,948,711	**6,025,331**	5,994,621
Cash at bank and in hand		**424,738**	654,361	**–**	–
		2,198,179	2,706,952	**6,025,331**	5,994,621
Creditors: Amounts falling due within one year	15	**(3,736,384)**	(3,094,644)	**–**	–
Net Current (Liabilities)/Assets		**(1,538,205)**	(387,692)	**6,025,331**	5,994,621
Total Assets Less Current Liabilities		**18,853,623**	18,158,588	**6,239,894**	6,209,184
Creditors: Amounts falling due after more than one year	16	**(8,150,000)**	(7,600,000)	**–**	–
		10,703,623	10,558,588	**6,239,894**	6,209,184
Capital and Reserves					
Called up share capital	17	**250,711**	250,481	**250,711**	250,481
Share premium account	18	**51,976**	21,496	**51,976**	21,496
Capital redemption reserve	18	**34,205**	34,205	**34,205**	34,205
Merger reserve	18	**6,295,295**	6,295,295	**–**	–
Other distributable reserve	18	**5,903,002**	5,903,002	**5,903,002**	5,903,002
Profit and loss account	18	**(1,321,980)**	(1,436,305)	**–**	–
ESOP shares	19	**(509,586)**	(509,586)	**–**	–
Shareholders' Funds	20	**10,703,623**	10,558,588	**6,239,894**	6,209,184

Approved by the Board of Directors on 28 October 2005
and signed on its behalf by:

A Jacobs
Chief Executive

R Davies
Finance Director

Consolidated Cash Flow Statement

for the year ended 31 July 2005

	Notes	2005 £	2004 £
Cash flow from operating activities	21a	1,983,832	934,854
Returns on investments and servicing of finance	21b	(500,901)	(122,163)
Taxation		–	–
Capital expenditure and financial investment	21b	(2,293,945)	(5,429,344)
Cash Outflow before Financing		(811,014)	(4,616,653)
Financing	21b	581,392	4,169,204
Decrease in Cash in the Period		(229,622)	(447,449)

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

	Notes	2005 £	2004 £
Decrease in cash in the period		(229,622)	(447,449)
Cash inflow from increase in debt and lease financing		(549,852)	(7,597,153)
Movement in Net (Debt)/Funds in Period		(779,474)	(8,044,602)
Net (Debt)/Funds at 1 August		(6,945,788)	1,098,814
Net Debt at 31 July	21c	(7,725,262)	(6,945,788)

Accounting Policies

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

Basis of Consolidation
The Group accounts consolidate the accounts of the Company and its subsidiaries for the year to 31 July 2005.

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

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 profit and loss evenly on a time apportioned basis over the period to which they relate.

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 2005

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

	2005 £	2004 £
Administration expenses		
Recurring expenses	7,167,580	6,490,237
Exceptional expenses (see note 6)	–	127,407
	7,167,580	6,617,644

3 Interest Receivable

	2005 £	2004 £
Bank interest	35,898	36,950

4 Interest Payable

	2005 £	2004 £
Finance leases	42	794
Bank loans	528,492	198,657
	528,534	199,451

5 Profit on Ordinary Activities before Taxation

		2005 £	2004 £
Profit on ordinary activities before taxation is stated after charging:			
Depreciation and amounts written off tangible fixed assets:			
– owned assets		728,522	664,006
– leased assets		–	147
Amortisation of goodwill		24,255	24,255
Operating lease rentals:			
– Land and buildings		1,294,527	1,178,549
Exceptional items (see note 6)		–	127,407
Auditors' remuneration			
Audit services	– statutory audit	25,100	22,000
Further assurance services		3,150	3,000
Tax services	– compliance services	6,850	6,500
	– advisory services	6,100	19,500
Other services	– corporate finance work in respect of share buyback	9,100	8,000
	– corporate finance work in respect of new bank facility	–	30,000
		50,300	89,000

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

6 Exceptional Items

	2005 £	2004 £
Termination payments	–	20,246
Professional fees re bid approach	–	38,600
Director's compensation for loss of office	–	68,561
	–	127,407

7 Employees

	2005 No.	2004 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Store management	**75**	70
Administration	**19**	20
	94	90

	2005 £	2004 £
Staff costs for the above persons:		
Wages and salaries	**1,779,142**	2,063,253
Social security costs	**170,496**	197,541
Pension costs	**24,431**	25,555
	1,974,069	2,286,349

In relation to pension contributions, there was £1,767 (2004: £2,444) outstanding at the year-end.

Directors' Remuneration

2005	Emoluments £	*Fees £	Bonuses £	Benefits £	Loss of office £	Gain on share options £	Total £
A Jacobs*	150,000	–	–	1,603	–	–	151,603
S G Thomas*	75,000	–	–	1,577	–	–	76,577
R A Davies **	82,917	–	7,500	–	–	–	90,417
C M Jacobs	47,500	–	11,875	1,458	–	23,160	83,993
R J Holmes	15,000	–	–	–	–	–	15,000
R W Jackson	15,000	–	–	–	–	–	15,000
M J G Stanton	15,000	–	–	–	–	–	15,000
	400,417	–	19,375	4,638	–	23,160	447,590

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
S G Thomas*	120,000	5,000	25,000	1,447	–	–	151,447
R A Davies **	40,385	–	5,000	–	–	–	45,385
C J R Stevens	43,494	–	–	993	66,663	–	111,150
C M Jacobs	47,500	–	7,000	1,290	–	–	55,790
R J Holmes	15,000	–	–	–	–	–	15,000
R W Jackson	8,423	–	–	–	–	–	8,423
M J G Stanton	15,000	–	–	–	–	–	15,000
	364,802	55,000	62,000	5,218	66,663	–	553,683

* During the year services totalling £285,183 (2004: £105,000) 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 which is directly attributable to Andrew Jacobs and Simon Thomas is shown in the directors' emoluments table above. See Note 28 on 'Related Party Transactions' for further information.

** £7,500 Bonus attributed to RA Davies was paid to Davies-Elise Consulting Limited, a company owned by RA Davies.

Pension contributions of £2,550 (2004: £11,104) were paid by the Company on behalf of one (2003: one) director. The highest paid director did not accrue any pension rights during the year.

Notes to the Financial Statements

for the year ended 31 July 2005

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:

	2005 £	2004 £
Profit/(loss) on ordinary activities before tax	114,325	(169,104)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	34,298	(50,731)
Expenses not deductible for tax purposes	15,295	7,492
Capital allowances for period in excess of depreciation	(82,429)	(52,506)
Accounting loss on disposal of capital assets	–	–
Tax losses not utilised	60,552	95,745
General provision	(203)	–
Deduction for employee share options	(23,277)	–
Depreciation on revenue items	(4,236)	–
Current tax charge for the period	–	–

The Group has revenue tax losses of approximately £3m 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.

It is not the intention of the directors to dispose of any of the properties as operational self-storage centres in the foreseeable future. If, however, the properties were sold at their market values as operational self-storage centres as disclosed in note 11, an estimate of the tax payable on the gain arising would be approximately £3m. This tax payable figure does not take into account any claims to rollover relief that the company might make. At present, it is not envisaged that any tax will become payable in the foreseeable future.

9 Earnings Per Ordinary Share

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

	2005 £	2004 £
Profit/(loss) for the financial year before exceptional items	114,325	(41,697)
Profit/(loss) for the financial year	114,325	(169,104)

	2005 No. of shares	2004 No. of shares
Weighted average number of shares		
For basic earnings per share	24,432,491	26,300,997
Exercise of share options	1,414,688	1,135,584
For diluted earnings per share	25,847,179	27,436,581

10 Intangible Fixed Assets – Purchased Goodwill

Group	Total £
Cost	
1 August 2004	485,093
Additions	–
31 July 2005	**485,093**
Amortisation	
1 August 2004	101,770
Charged in year	24,255
31 July 2005	**126,025**
Net book value	
31 July 2005	**359,068**
31 July 2004	383,323

11 Tangible Fixed Assets

Group	Freehold properties £	Short leasehold improvements £	Furniture, fixtures and fittings £	Motor vehicles £	Total £
Cost					
1 August 2004	13,070,018	1,468,364	6,275,757	64,110	20,878,249
Additions	1,383,094	29,278	1,181,014	4,939	2,598,325
Transfers	–	–	–	–	–
Disposals	–	–	–	–	–
31 July 2005	**14,453,112**	**1,497,642**	**7,456,771**	**69,049**	**23,476,574**
Depreciation					
1 August 2004	350,493	384,735	1,946,113	33,951	2,715,292
Charged in year	76,989	117,728	526,472	7,333	728,522
Transfers	–	–	–	–	–
Disposals	–	–	–	–	–
31 July 2005	**427,482**	**502,463**	**2,472,585**	**41,284**	**3,443,814**
Net book value					
31 July 2005	**14,025,630**	**995,179**	**4,984,186**	**27,765**	**20,032,760**
31 July 2004	12,719,525	1,083,629	4,329,644	30,159	18,162,957

The additions to freeholds includes the acquisition/development of the freehold sites in Hawley Lane, Farnborough for £0.6m and the initial payments on the Crayford site on the Optima Business Park for £0.5m. The additions to fixtures and fittings includes the balance of fit-out for Tonbridge and significant phased fit-outs at Ashford, Southampton, Northampton, Luton, Eastbourne and Milton Keynes stores. The Head lease at Poole contained an irrevocable option to purchase the freehold of the site for the sum of £1 exercisable at any time after 20 August 2010. The Company successfully negotiated the exercise of this option during the year.

The net book value of fixtures and fittings had no amounts (2004: £1,392) in respect of assets held under finance leases.

Notes to the Financial Statements

for the year ended 31 July 2005

11 Tangible Fixed Assets continued

Market valuation of freehold land and buildings

On 31 January 2005, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, in respect of all trading freehold and leasehold properties as operational self-storage businesses. The freehold site at Farnborough, acquired on 30 July 2004, was not valued on this occasion as building had not yet commenced. This Report was prepared on the basis of Market Value/Existing Use Value, having regarded its trading potential as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was excluded. (See below for a more detailed description of valuation methodology).

The Report indicates a total for properties valued of £31.84m. Including Farnborough (NBV £1.76m), this gives a total value of properties held of £33.6m as at 31 January 2005. (NBV £18.4m) at 31 January 2005. These valuations do not account for any further uplift in values, which would result from the planning permission achieved for residential at the Kingston site, nor any successful outcome of the planning application for residential at the Reading site. These valuations also do not account for any further uplift arising from the acquisition of the Crayford site or further investment in existing stores since January 2005, and in particular the further build-out works to the Farnborough store, which is under development. While the Company does not envisage routinely revaluing its properties it will do so when appropriate.

Valuation Methodology

Background

The USA has over 40,000 self-storage centres trading in a highly fragmented market with the largest five operators accounting for less than 16% of market share based on net rentable square footage. The vast majority of centres are owned and managed singly or in small portfolios. These properties have a well established track record of being traded and are therefore considered as liquid property assets.

Many valuations of this asset class are undertaken by appraisers in the USA and the accepted valuation approach is to value the properties having regard to trading potential. This approach is recognised in the RICS Appraisal & Valuation Standards published by The Royal Institution of Chartered Surveyors and is adopted for other categories of property that are normally bought and sold on the basis of their trading potential. Examples include hotels, bars, restaurants, marinas and petrol stations.

In the UK the scope for active trading of these property assets is likely to be less, in a smaller market. However there is now some evidence that there will be liquidity as the market continues to develop.

Cushman & Wakefield Healey & Baker ('C&W/H&B') believe that the valuation methodology adopted in the USA is the most appropriate for the UK market.

Methodology

C&W/H&B have adopted different methodologies for the valuation of the leasehold and freehold assets as follows:

Freehold

The valuation is a discounted cash flow of the net operating income projected over a 10 year period and notional sale of the asset at the end of the tenth year.

Assumptions

A. Net operating income is based on actual revenue received less actual operating costs together with a central administration charge representing 7% of the estimated annual revenue. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.

B. The net operating income in future years is calculated assuming straight-line absorption from day one actual occupancy to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 18 stores (both freehold and leasehold) averages 78%. The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.

C. Capitalisation rates of existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, bank base rates, 10 year money rates and inflation. On average, for all 18 stores, the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 6%. This rises to 12.86% based on the projected cash flow for the first full cash flow year following estimated stabilisation in respect of each property.

D. The notional sale of the freeholds at the end of the tenth year has been calculated at an average weighted exit yield of 9.66%.

E. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 12.5%.

F. On all assets, purchaser's costs of 5.75% have been assumed initially and sale and purchaser's costs totalling 7.75% are assumed on the notional sales in the tenth year in relation to the freehold stores.

Leaseholds

The same methodology has been deployed as for freeholds, except that no sales of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term (unweighted) of the Group's leaseholds is approximately 11 years and 1 month (as at 31 January 2005).

12 Investments

Company	Shares in subsidiary undertakings £
Cost	
At 1 August 2004 and 31 July 2005	
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

13 Stocks

	Group 2005 £	Group 2004 £	**Company 2005 £**	Company 2004 £
Consumables and goods for resale	**88,648**	103,880	**–**	–

14 Debtors

	Group 2005 £	Group 2004 £	**Company 2005 £**	Company 2004 £
Due within one year:				
Trade debtors	**718,282**	642,095	**–**	–
Other debtors	**63,806**	217,783	**837**	837
Amounts owed by subsidiaries	**–**	–	**6,024,494**	5,993,784
Prepayments and accrued income	**902,705**	1,088,833	**–**	–
	1,684,793	1,948,711	**6,025,331**	5,994,621

15 Creditors: Amounts falling due within one year

	Group 2005 £	Group 2004 £	**Company 2005 £**	Company 2004 £
Trade creditors	**1,321,098**	1,010,063	**–**	–
Obligations under finance leases	**–**	148	**–**	–
Taxation and social security costs	**148,425**	61,971	**–**	–
Corporation tax	**45,700**	45,700	**–**	–
Other creditors	**782,131**	656,194	**–**	–
Accruals and deferred income	**1,439,030**	1,320,568	**–**	–
	3,736,384	3,094,644	**–**	–

Notes to the Financial Statements

for the year ended 31 July 2005

16 Creditors: Amounts falling due after more than one year

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Bank loans repayable in more than two years but not more than five years	8,150,000	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 five-year term and expires on 15 July 2010. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter Bank Offer Rate (LIBOR) plus 1.25%–1.35% Royal Bank of Scotland Plc margin.

17 Share Capital

Authorised:	2005 £	2004 £
35,000,000 ordinary shares of 1p each (2004: 35,000,000)	350,000	350,000

Alloted, issued and fully paid ordinary shares:	Number of shares	£
At July 2004	25,048,144	250,481
Options exercised	23,000	230
At 31 July 2005	**25,071,144**	**250,711**

During the year, options were exercised on 23,000 ordinary shares at 37p per share and that number of shares were issued for a consideration of £8,510.

At the Company's Annual General Meeting on 16 December 2004, shareholders gave approval to replace the existing share buy-back authority and this authority will be subsequently renewed annually at the Company's Annual General Meeting each year thereafter. The authority is restricted to a maximum of 5,845,299 ordinary shares, which is equivalent to 23.3% of the Company's issued share capital and is equal to the number of shares available for purchase under the previous authority. The buy-back authority will only be exercised in circumstances where the directors regard such purchases to be in the best interests of shareholders as a whole and is subject to the waiver of Rule 9 by the Panel of Takeovers and Mergers being approved by the shareholders.

18 Reserves

	Share premium £	Merger reserve £	Other distributable reserve £	Capital redemption reserve £	Profit and loss account £	Total £
1 August 2004	21,496	6,295,295	5,903,002	34,205	(1,436,305)	10,817,693
Exercise of share options	30,480	–	–	–	–	30,480
Profit for the year	–	–	–	–	114,325	114,325
31 July 2005	**51,976**	**6,295,295**	**5,903,002**	**34,205**	**(1,321,980)**	**10,962,498**

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 2005 Number	Group 2004 Number	Group 2005 £	Group 2004 £
1 August 2004	**627,500**	1,127,500	**509,586**	1,023,886
Purchased in the year	**–**	–	**–**	–
Sold in the year	**–**	(500,000)	**–**	(514,300)
31 July 2005	**627,500**	627,500	**509,586**	509,586

The ESOP shares are held by the employee benefit trust (see note 27). The disposals in 2004 arose from the Group's buyback of shares.

20 Reconciliation of Movement in Shareholders' Funds

	Group 2005 £	Group 2004 £
Opening shareholders' funds		
As previously stated	**10,558,588**	14,201,342
Profit/(loss) for the financial year	**114,325**	(169,104)
Share issue on exercise of share options	**230**	–
Premium on exercise of share options	**30,480**	17,000
Gross purchase and cancellation of own shares	**–**	(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	**145,035**	(3,642,754)
Closing shareholders' funds	**10,703,623**	10,558,588

Opening shareholders' funds were restated in 2004 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.

21 Cash Flows

	2005 £	2004 £
A Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit/(loss)	**606,961**	(5,733)
Depreciation	**728,522**	664,153
Amortisation	**24,255**	24,255
Decrease/(increase) in stocks	**15,232**	(2,097)
Decrease/(increase) in debtors	**263,089**	(420,932)
Increase in creditors	**345,773**	675,208
Net cash flow from operating activities	**1,983,832**	934,854

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for the year ended 31 July 2005

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

	2005 £	2004 £
Returns on Investments and Servicing of Finance		
Interest received	35,898	36,950
Interest paid	(536,757)	(158,319)
Interest element of finance lease rental payments	(42)	(794)
Net Cash Outflow for Returns on Investments and Servicing of Finance	(500,901)	(122,163)
Capital Expenditure and Financial Investment		
Purchase of tangible fixed assets	(2,293,945)	(5,429,644)
Proceeds from sale of tangible fixed assets	–	300
Net Cash Outflow for Capital Expenditure And Financial Investment	(2,293,945)	(5,429,344)
Financing		
Bank loans	550,000	7,600,000
Capital element of finance lease rental payments	(148)	(2,847)
Exercise of share options	31,540	17,000
Purchase of own shares (incl. costs)	–	(3,444,949)
Net Cash Inflow from Financing	581,392	4,169,204

C Analysis of net debt

	At 31 July 2004 £	Cash flow £	Other non cash changes £	At 31 July 2005 £
Cash at bank and in hand	654,360	(229,622)	–	424,738
Debt due after 1 year	(7,600,000)	(550,000)	–	(8,150,000)
Finance leases	(148)	148	–	–
Total	(6,945,788)	(779,474)	–	(7,725,262)

22 Commitments under Operating Leases

At 31 July 2005 the annual commitments under non-cancellable operating leases were as follows:

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Land and buildings				
expiring within one year	115,000	80,000	–	–
expiring in the second to fifth year	69,996	192,492	–	–
expiring after five years	1,091,415	1,014,198	–	–
	1,276,411	1,286,690	–	–

23 Share Option Agreements

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

	At 31 July 2004	Granted £	Exercised £	**At 31 July 2005**	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	992,978	–	–	**992,978**	37	04.04.02	03.04.07
S G Thomas	496,489	–	–	**496,489**	37	04.04.02	03.04.07
C M Jacobs	153,000	–	(23,000)	**130,000**	37	04.04.02	03.04.07
P Crisp	122,000	–	(60,000)	**62,000**	38	04.04.02	03.04.07

On 25 January 2005, C M Jacobs exercised an option to acquire 23,000 ordinary shares at 37p per share. In addition, on the same day, C M Jacobs sold 20,496 ordinary shares at 150p per share. Following these transactions his total beneficial holding (including family interests) in the Company increased from 12,496 to 15,000 ordinary shares and represents his beneficial holding as at 31 July 2005.

The total number of share option agreements outstanding at the year-end was 1,681,467 as outlined above. The criteria for exercising these options are as follows:

1. Group turnover exceeds £5m.
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:

	At 31 July 2004	Granted £	Exercised £	**At 31 July 2005**	Exercise price (p)	Date from which exercisable	Expiry date
C M Jacobs	25,540	–	(25,000)	**540**	191	30.04.04	30.04.09
C M Jacobs	25,000	–	–	**25,000**	102	20.01.07	20.01.14
C M Jacobs	22,759	–	–	**22,759**	113	30.07.07	30.07.14
C M Jacobs	–	31,414	–	**31,414**	152	30.07.08	30.07.15
R A Davies	98,039	–	–	**98,039**	102	19.01.07	19.01.14

On 20 July 2005, C M Jacobs agreed to waive his rights to exercise the grant of an option made on 30 April 2001 over 25,000 shares in the Company at £1.91 per share under the terms of the Enterprise Management Incentive employee share option scheme.

A further 50,000 options were granted to key management for an exercise price of 116p per share and a further 121,007 options for an exercise price of 152p per share during the year. The total number of EMI options outstanding as at the year-end were 678,977 (2004: 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	56,781	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
30.07.07	163,103	113
03.12.07	50,000	116
30.07.08	121,007	152
	501,225	

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 £10m.
2. The profits for any period commencing after the date of grant has exceeded £3m.
3. The share price has exceeded £5.
4. Control of the Company changes.

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25 Approved Share Option Scheme

No share options were granted under this scheme during the year (2004: nil).

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

Since year ended 31 July 2002, the Company's turnover has exceeded £5m. The total number of approved options outstanding as at the year-end remains unchanged at 22,377 (2004: 22,377). 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:

	At 31 July 2004	Granted £	Exercised £	**At 31 July 2005**	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
A Jacobs	–	50,000	–	**50,000**	152	30.07.08	30.07.15
S Thomas	50,000	–	–	**50,000**	102	20.01.07	20.01.14
S Thomas	50,000	–	–	**50,000**	113	30.07.07	30.07.14
S Thomas	–	50,000	–	**50,000**	152	30.07.08	30.07.15
R Davies	1,961	–	–	**1,961**	102	20.01.07	20.01.14
R Davies	50,000	–	–	**50,000**	113	30.07.07	30.07.14
R Davies	–	100,000	–	**100,000**	152	30.07.08	30.07.15
C Jacobs	2,241	–	–	**2,241**	113	30.07.07	30.07.14
C Jacobs	–	25,000	–	**25,000**	148	16.05.08	16.05.15
C Jacobs	–	18,586	–	**18,586**	152	30.07.08	30.07.15

The total number of unapproved options outstanding as at the year-end was 668,856 (2004: 361,277). 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
20.01.07	**50,000	102
30.07.07	11,898	113
30.07.08	63,993	152
	171,068	

**50,000 options are held by Value Added Services Limited, a company in which Andrew Jacobs and Simon Thomas have a beneficial interest.

26 Unapproved Share Options continued

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 £5m.
2. Share price exceeds 150p.
3. Control of the Company changes.

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

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 £10m.
2. The profits for any period commencing after the date of grant has exceeded £3m.
3. The share price has exceeded £5.
4. Control of the Company changes.

27 Employee Benefit Trust

The Group operates an Employee Benefit Trust ('EBT') under a settlement dated 8 July 1999 between Lok'nStore 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.

As at 31 July 2005, the Trust held 627,500 ordinary shares of 1p each with a market value of £953,800. No dividends were waived during the year. No options have been granted under the EBT.

28 Related Party Transactions

The Company maintains 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 shown in note 7. Fees are settled monthly and there were no outstanding amounts due to Value Added Services Limited at the year-end. The maximum balance outstanding at any time during the year is £23,765 (ex VAT).

During the year the Company entered into a retainer agreement for investor relations services with H2JL Limited, a company in which Robert Jackson has a beneficial interest. The total fees payable to H2JL Limited are £1,000 per month. There was £2,000 outstanding due to H2JL Limited at the year-end. The maximum balance outstanding at any time during the year is £2,000 (ex VAT).

During the year the Company entered into an agreement with Keith Jacobs, a brother of Andrew Jacobs and Colin Jacobs, for the provision of marketing services and support on a consultancy basis. The fees payable to Keith Jacobs during the year under this arrangement were £34,000. There was £8,599 outstanding due to Keith Jacobs at the year-end. The maximum balance outstanding at any time during the year is £8,599 (ex VAT).

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for the year ended 31 July 2005

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 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:
1. LIBOR plus a 1.25%–1.35% for the revolving advances amounting to £8.15m.
2. 0.25% for non-utilisation (i.e. that part of the facility which remains undrawn from time to time).

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 £20m (2004: £10m). This facility expires on 15 July 2010. Undrawn committed facilities at the year-end amounted to £11,850,000.

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 £5,150,251 (2004: £221,275). The outstanding commitments relate to the fitting out of the existing Tonbridge and Poole stores and the development of the new Farnborough and Crayford stores.

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that Company had bank borrowings of £8.15m (2004: £7.6m).

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