Lok'nStore Group Plc

Annual Report & Accounts 2006

LOK'nSTORE

Business & Household Self Storage

Lok'nStore has a proven ability to increase revenue from our existing centres and open new centres which continue to produce attractive growth and profits.

Highlights

£3.1M
storage centres EBITDA

£2.13
Net Asset Value per share

£66.6M
property valuation at 31 July 2006

Financial Highlights

- Turnover £8.95 million – up 15.1% (2005: £7.77 million)
- Company EBITDA £1.75 million – up 29% (2005: £1.36 million)
- Storage centres EBITDA £3.1 million – up 24% (2005: £2.5 million)
- Operating Profit £851k – up 40.3% (2005: £607k)
- EBITDA Margin on established stores (>250 weeks): 40%

Property Highlights

- Property valuation £66.6 million – up 98%
- Net Asset Value (NAV) £2.13 per share (based on 31.07.2006 valuations)
- Built and opened first purpose built store in Farnborough
- Total portfolio capacity 920,000 sq ft
- Planning permission granted for the new Reading store on adjacent land

Operational Highlights

- Good sales growth at established and new storage centres
- Opened Farnborough and Crayford centres on time and on budget
- 104,818 sq ft of self-storage units fitted – an increase of 20% in fitted space
- 19 stores out of 21 now operating at EBITDA positive levels
- Prices for self-storage up 4% year on year

Chairman's Statement

Substantial **growth** in shareholder value

Overview

I am pleased to report that Lok'nStore continues to make good progress and I am delighted at the successful opening of our new flagship store and head office in Farnborough. The operating performance of our existing centres has continued to improve, we have increased the value of our existing centres and we have successfully launched new sites acquired last year. At our year end we have revalued all of our properties. These valuations have not been included in the balance sheet.

Lok'nStore's focus on growth again has underpinned satisfactory results. Turnover, profits and operating cash flows have all increased. We continue to invest in our existing centres, as well as opening new centres, reflecting our positive view of the market.

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

Sales and Earnings Growth

Total turnover for the year was £8.95 million (2005: £7.77 million), an increase of 15.1%, with annualised revenues now reaching £10.36 million (2005: £8.48 million) demonstrating the continued growth of the business during the year. The Group made an operating profit for the year of £851,351 up 40.3% compared with £606,961 in 2005. The Group made a pre-tax profit for the year of £124,301 compared with £114,325 in 2005.

The cash-flow of the operating business has continued to grow with earnings before interest, tax, depreciation and amortisation (EBITDA) from the storage centres at £3.08 million, and cash flow from operating activities amounting to £1.6 million.

At 31 July 2006, the number of customers/contracts had risen to 7,570 up from 6,715 at 31 July 2005, an increase of 12.7% over the year.

Our established centres have continued to grow alongside the more rapid sales increases at our newest centres. On a like-for-like basis, our 15 Centres trading for more than 250 weeks grew revenue by 9.2%, our 4 centres with 100 to 250 weeks' trading grew revenue by 42.3%. Our 2 new centres at Farnborough and Crayford had been trading for around six months at the year end and have started encouragingly.

Lok'nStore's 11 most established centres (those stores over 250 weeks old in the last financial year) made EBITDA margins of 49% this year compared to 48% last year, demonstrating improvement in the underlying margin on a like-for-like basis. At 31 July 2006, Lok'nStore had 15 established stores (over 250 weeks old) with the addition of 4 stores, all leasehold, joining this category during the year. These made an aggregate EBITDA margin of 39.8%. Again, we have seen margin improvement when compared to 37.7% last year for the same 15 stores, showing the strong underlying and increasing profitability of the business.

Overall EBITDA margins on the aggregate of all stores improved from 32.4% to 34.6%.

New Centres

During the year we built and opened our new centre in Farnborough, and opened a new centre in Crayford. They are both located in attractive markets with high visibility. We now have 21 stores open with capacity of 920,000 sq ft of storage space when fully fitted.

These two new stores, which provide 128,000 sq ft of space, are larger than Lok'nStore's average size of around 43,800 sq ft per store, and add 16% to total space. Combined with the fact that they are both freeholds and prominent, high specification buildings this adds significantly to the potential margins they are capable of achieving. This in turn positively impacts on the potential margins of the Group overall.

The successful development and opening of the Farnborough centre which is the first purpose build for Lok'nStore represents an evolution of the business model, creating value through larger new-build centres. It is the first centre where Lok'nStore has

+34.6%

EBITDA margin

managed the entire process of buying the land, gaining planning permission, building and fitting the store. With its prominent design and position adjacent to the M3 motorway it has raised the profile of the whole Lok'nStore brand.

I would like to take this opportunity to thank the Lok'nStore team for its prompt construction and successful opening.

Our objective is to increase the number of Lok'nStore centres and we have further sites in the pipeline which we expect to sign during the coming financial year. We continuously review opportunities to buy, to build, and to lease new stores and are encouraged by the early success of the Farnborough store as a model for rolling out future stores. We believe that there is an opportunity to further increase the value of the business by accelerating our growth rate.

Property Assets

Lok'nStore's property holdings have been valued at 31 July 2006. This report valued our properties at £66.6 million (Jan 2005: £31.8 million) compared to a net book value of £25.2 million. (2005: NBV £16.7 million). This valuation includes the new Farnborough and Crayford stores, in addition to the Kingston and Reading properties at full market value. This valuation translates into a net asset value of 213 pence per share. The value of trading properties which were previously valued in January 2005 showed an uplift of 33.42% from that date, of which 13.25% is capital growth (yield contraction) and 20.17% operational performance.

During the year we were pleased to conclude the planning permission formalities in respect of high-density residential development at our existing Kingston site with the formal execution of the S.106 Agreement.

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 5.54 sq ft in 2006. The population density of the US is only 32 per sq km 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 one of two quoted storage operators in the UK, ranked fourth in size in the UK and sixth in Europe.

Lok'nStore People

Andrew Jacobs, Chief Executive Officer, is supported by an experienced executive team now all based at our corporate head office in Farnborough. Our storage centre personnel are committed and motivated and help maintain the exemplary levels of friendly service that Lok'nStore provides to its customers.

I would like to thank all of the people who work at our head office and in our centres for their commitment to our business and for their hard work. Their continued effort will enable us to further increase the value of the business.

Outlook

The UK self-storage market continues to offer an excellent combination of predictable profits and potential for growth. It continues to grow rapidly and offers a great opportunity, particularly to the major operators with specialist skills. Lok'nStore has a proven ability to increase revenue from our existing centres and open new centres, which combine to produce attractive growth and profits. There are opportunities to open new stores, and to improve margins further by enlarging their average size and increasing prices. We believe that there is an opportunity to further increase the value of the business by accelerating our growth rate.

Lok'nStore's market position, leading brand and increasing balance sheet strength means we are well positioned to take advantage of this under-developed market and I am confident that our management team will continue to deliver substantial growth in shareholder value.

Simon G Thomas
Chairman
27 October 2006

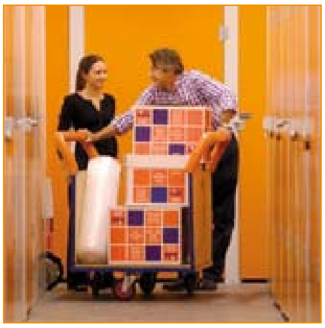
*Source: Pramerica Real Estate Investors

Operating Review

We are taking a more active approach to yield management, and raising operational standards

OUR OBJECTIVES

Improving…	the operating performance of existing centres	15.1% sales up year on year	Sales up 15.1%. Insurance sales and packing materials and other sales have increased 18.6%. 605,746 sq ft of occupied space at 31 July 2006.
Enhancing…	the value of existing centres	£66.6M property valuation	104,818 sq ft of new unit space fitted in the year – a 20% increase. Property valuations of portfolio increased to £66.6 million.
Growing…	the number of centres	21 centres	Farnborough and Crayford centres built and opened during the year, adding 128,000 sq ft of lettable space.



Sales Performance

During the year under review we have continued to raise operational standards at Lok'nStore, and to focus store 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 using facilities in our new flagship store in Farnborough. In addition, we regularly review the bonus scheme to link performance and reward more directly to turnover growth and consistently high quality customer service.

During the year we increased occupied space by 50,301 sq ft (9.1%), with total occupied space at 31 July 2006 of 605,746 sq ft (31 July 2005 of 555,445 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.

Encouragingly revenue from the 15 most established centres (over 250 weeks) increased 9.2% on the previous year. We believe there is room for further increases in these older stores with new space still to be fitted out in addition to improving income from existing space.

Lok'nStore is now taking a more active approach to yield management with average prices for self-storage units increasing 4% over the year. This compares favourably with the last several years where prices have only risen 0.5–1% per annum. We have introduced a yield management system underlying our confidence that we will be able to increase prices by more than inflation for several years. Our average price for self-storage was £16.40 at 31 July 2006 which compares favourably with the average of £18.29 for the industry across the south-east (source: Self-Storage Association survey 2006). We believe that there is room to continue to increase prices while retaining our price competitive position in the market.

Lok'nStore's established centres (over 250 weeks old) achieved EBITDA margins of 40%.

Fourteen of the centres are trading profitably at the pre-tax level (2005: 14) and 19 have positive operating cash flow (2005: 17).

Packing materials, insurance and other sales increased 18.6% over the year accounting for 7.9% of turnover (2005: 7.7%).

Marketing

The Company spent approximately 6.5% of turnover on advertising and marketing (including postage, printing and stationery) (2005: 6.4%). 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 increase in occupancy over the year of 50,301 sq ft, up 9.1% on the previous year, and increases in self-storage pricing by 4%.

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

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

We apply coordinated sales and marketing messages. Our storage centre personnel are closely involved and work with our head office, to ensure our expenditure remains effective.

Systems – Centralised Space Manager

During the year we have centralised our store management computer system which is already yielding marketing and other management information benefits. We remain committed to continuing systems centralisation, greater audit capability and a continued focus on efficient and timely data. During the year we have increased the penetration of direct debit facilities which reduces administrative effort and saves on stationery and postage costs at the centres. As well as being a positive service to our customers it also reduces the time committed to credit management. The 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

Investing in attractive markets with high visibility

920,000

sq ft of storage space

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 continually review our security resources and are upgrading our security in line with up-to-date equipment, for example, colour CCTV monitors of greater capability and detail and improved lighting.

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

Property and Construction

During the year we built and opened our new freehold centres in Farnborough and Crayford, totalling 128,000 sq ft. Farnborough is the first store we have had purpose built for Lok'nStore and we are delighted with the result. Both of these stores are located in attractive markets with high visibility.

We now have 21 stores open with capacity of 920,000 sq ft of storage space when fully fitted. 11 stores are held freehold and 10 leasehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold centres.

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

Lok'nStore 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 opening storage space, and keeping tight control on capital expenditure by fitting out when it is required. Over the year under review we fitted out a further 104,818 sq ft of self-storage units, a 20% increase in fitted space.

Subject to market conditions, it is our current aim to acquire between two and four centres per annum. Our current average centre size is around 43,800 net sq ft and this may increase for new centres up to 60,000 net sq ft or more. 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		July 2006		
Maturity analysis	Over	100 to	Under	
Weeks old	250	250	100	Total
Sales (£'000)	7,243	1,443	202	8,888
Stores EBITDA (£'000)	2,885	269	–78	3,076
EBITDA margin (%)	39.8	18.7	–38.7	34.6
Maximum Net Area ('000 sq ft)	630	162	128	920
Freehold	7	2	2	11
Leasehold	8	2	0	10
Total centres	15	4	2	21

Our People – focused on customer satisfaction

104

employees

Customer Analysis

At the end of July 39.6% of our turnover was from business customers (25.2% by number) and 60.4% was from household customers (74.8% by number).

Our People

At 31 July 2006, we had 104 employees (2005: 94).

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. In January 2006, we moved the Lok'nStore head office from our Kingston centre to a new purpose built accommodation in our Farnborough Centre. This has improved coordination and communication within the Company, and particularly amongst our property and other functional management previously dispersed around our different offices. All head office staff now operate from Farnborough.

Lok'nStore encourages all personnel to build their skills through appropriate training and regular performance monitoring. Regular weekly training courses at Farnborough support these objectives. We have incorporated a new conference room into our head office, which can accommodate all our training requirements for the foreseeable future. We have reduced outgoings, increased the regularity of training and improved contact between head office and the stores by bringing staff into head office for regular training.

All employees are eligible to participate in share ownership plans after three months of employment and 34% of our employees have EBT shares or options. 36% of the personnel are members of the contributory pension scheme.

I would like to thank all 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.

Andrew Jacobs
Chief Executive Officer
27 October 2006

Financial Review

Generating cash, **increasing** asset value

Property assets

	31 July 06		31 January 05	
	Valuation £m	NBV £m	Valuation £m	NBV £m
Properties valued by 'C&W'	66.6	25.2	31.8	16.7
Farnborough at cost	–	–	1.8	1.8
	66.6	25.2	33.6	18.5

Trading

Total turnover for the year was £8.95 million (2005: £7.77 million), an increase of 15.1%, with annualised revenues now reaching £10.36 million (2005: £8.48 million). Excluding the rental income foregone by expanding the Poole Store self-storage turnover grew by 16.4%.

Group EBITDA was up 29% to £1.75 million (2005: £1.36 million). Operating profit increased 40.3% to £851,351 (2005: £606,961). There were no exceptional costs.

Lok'nStore's self-storage business model is a robust one with security deposits taken from customers when they first store with us. Customers also pay four weekly in advance. Credit control therefore remains tight with £44,000 of bad debts written off during the year representing less than 0.5% of turnover.

The net interest charge increased from £492,636 to £727,050. This is a consequence of the Group utilising its bank facilities to acquire the freehold sites at Farnborough and Crayford, and the continuing fit-out programme at our existing stores. Year-end borrowings were £14.12 million.

The Group made a profit on ordinary activities before tax of £124,301 (2005: £114,325).

The current year tax charge of £100,483 relates to a movement in deferred tax arising on capital allowances in excess of depreciation. No actual cash liability to corporation tax arises during the year 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 £3.4 million. In addition the business had capital losses available to carry forward of £362,636.

Basic earnings per share was 0.10 pence per share (2005: 0.47 pence per share).

Borrowings and 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 £0.92 million (2005: £0.42 million).

Cash inflow from operating activities before interest and capital expenditure was £1.6 million. Capital expenditure totalling some £6.3 million reflects the Group's commitment to growing its business through a combination of site acquisition and related works (£5.2 million) and investing in our existing stores (£1.1 million). At 31 July 2006, the Group had £14.12 million of borrowings representing gearing on an NBV basis of 123% on net debt of £13.2 million. Gearing, when adjusted, on the basis of the Group's revalued stores, drops to 25%.

Buyback Authority

At the Company's AGM on 1 December 2005, 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 25,091,144 Ordinary Shares.

Net asset value per share

	2006
Analysis of net asset value (NAV)	£
Net assets per balance sheet	10,742,441
Add: revalued property assets	66,590,000
Deduct: tangible fixed assets at net book value (NBV)	(25,240,096)
Revalued net assets	52,092,345
Shares in Issue	Number
Opening shares	25,071,144
Shares issued for the exercise of options	20,000
Closing shares in issue	25,091,144
Shares held in EBT	(627,500)
Closing shares for NAV purposes	24,463,644
Basic net asset value per share	213 pence

Net assets per share are shareholders' funds divided by the number of shares at the year end. The shares currently held in the Group's employee benefits trust (own shares held) are excluded from both net assets and the number of shares.

Balance Sheet

Net assets at the year-end increased to £10.74 million (2005: £10.7 million). This does not reflect the significant uplift in valuation as a result of the property valuation of £66.6 million which increases net assets to £52.1 million. This valuation translates into a net asset value per share of £2.13 as reported below.

The Employee Benefit Trust owns 627,500 (2005: 627,500) shares, the costs of which are shown as a deduction from shareholders' funds in accordance with Urgent Issues Task Force Abstract 38.

Market valuation of freehold and leasehold land and buildings

On 31 July 2006, professional valuations were prepared by external valuers, Cushman & Wakefield (C&W), in respect of 12 freehold and 6 leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards. The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. The external valuation methodology provides for a Purchaser acquiring a centre incurring purchase costs of 5.75% initially and sale plus purchaser's costs totalling 7.75% are assumed on the notional sales in the tenth year in relation to the freehold stores. In practice we believe that it is unlikely that Lok'nStore stores would be acquired other than in a corporate structure (see note 10 in the notes to the accounts for a more detailed description of the valuation methodology).

The valuation report indicates a total for properties valued of £66.6 million (NBV £25.2 million) (January 2005: £31.8 million: (NBV £16.7 million)). These valuations have not been included in the Balance Sheet. The 2006 valuation includes the new stores Farnborough and Crayford and reflects the uplift in value which has resulted from the grant of planning permission and the execution of the S.106 Agreement at the Kingston site. In relation to the existing store at Reading, there is potential for redevelopment for residential use. Accordingly, the site has been valued as an operating self-storage site but with an additional uplift to reflect residential development potential, but recognising that this has yet to be obtained. The valuations also do not account for any further investment in existing centres since July 2006. While the Company does not envisage routinely revaluing its properties it will continue to 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 Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the stores valued was 11.2 years at the date of the 2006 Valuation (source: C&W) (2005 valuation: 11.1 years).

Financing and Liquidity

The Company has a £20 million revolving five-year committed credit facility with The Royal Bank of Scotland Plc and provides sufficient additional liquidity for the Group's immediate expansion plans. Interest payable on the loan is on terms, paying between 1.25% and 1.35% over LIBOR. Non-utilisation charges are 0.25% on the value of the undrawn facility. Undrawn committed facilities at the year-end amounted to £5.88 million.

The facility is secured on the existing property portfolio, excluding the Kingston and Reading properties. This ensures that the Group has the full flexibility to maximise the value of any potential exit or realisation of these two redevelopment opportunities.

During the year the Company complied with all corresponding debt covenants.

Treasury

All cash deposits are placed with The 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
27 October 2006

Board of Directors




Executive Directors

Andrew Jacobs (47)
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 (46)
Chairman
An Executive Director of Lok'nStore since 1997.

Ray Davies (49)
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 and fitness sectors.

Colin Jacobs (42)
Director
Has been with Lok'nStore since its inception and a Director since 1997. He is responsible for acquiring new stores.

Non-Executive Directors

Robert Ward Jackson (50)
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 (46)
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.

Advisers

Directors

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

Management

A Birks	Personnel Manager
K Elster	Operations Manager
K Jacobs	Director Sales & Marketing
S Soyemi	Financial Controller
J Stafford	Associate Director Sales
J Ogburn	Facilities Manager
R Warren-Thomas	Associate Director Property
N Newman	Associate Director Sales

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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 2006.

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

A detailed account of the Group's progress during the year and its future prospects are set out in the Chairman's Statement on pages 2 and 3. A detailed Operating Review and a Financial Review have been prepared and are set out on pages 4 to 9 and pages 10 and 11 respectively.

Additionally:

- The business objectives are set out on pages 5 to 7.
- The finance risks within the business are set out in note 30 (Financial Instruments) section on page 38.
- The key performance indicators are included within the Highlights (see page 1) and the Financial Review (see pages 10 and 11).

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	CM Jacobs
RA Davies	MJG Stanton (resigned 31/8/06)
RJ Holmes	RW Jackson
SG Thomas	

In accordance with the Company's Articles of Association, Colin Jacobs and Richard Holmes retire by rotation and, both being eligible, offer themselves for re-election at the next Annual General Meeting.

On 31 August 2006, Marcus Stanton stepped down from the Board. The Board of Lok'nStore extends its thanks and appreciation to Marcus for all his work and advice over the last five years.

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 2006	1 August 2005
A Jacobs	**5,314,000**	5,314,000
SG Thomas	**2,187,500**	2,437,500
RA Davies	**30,000**	–
RJ Holmes	**110,000**	95,000
CM Jacobs	**–**	15,000
RW Jackson	**–**	–

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

The Company was notified on 9 February 2006 that the Aylestone Pension Fund had sold 50,000 Ordinary Shares in the Company and on 31 May 2006 that the Aylestone Pension Fund had sold 34,575 Ordinary Shares in the Company with a resultant holding of 80,000 (31 July 2005: 164,575) Ordinary Shares representing 0.3% 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 2006:

	Number of Ordinary Shares of 1p each	Percentage of issued share capital
A Jacobs	5,314,000	21.2
Mercury Real Estate Advisors LLC	2,913,000	11.6
SG Thomas	2,187,500	8.7
Merrill Lynch Investment Managers (MLIM)	1,928,576	7.7
Gartmore Investment Management	1,550,256	6.2
Charles Stanley	1,254,935	5.0
Canada Life	1,050,000	4.2
Montanaro Investment Managers	775,000	3.1

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 30 days (2005: 57 days).

Market Valuation of Freehold Land and Buildings

The changes in tangible assets during the year and details of property valuations at 31 July 2006 are shown in note 10 to the Financial Statements. Further commentary on property portfolio is contained in both the Operating and Financial Reviews.

On 31 July 2006, professional valuations were prepared by external valuers, Cushman & Wakefield (C&W), in respect of 12 freehold and 6 leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards, and indicates a total for properties valued of £66.6 million (NBV £25.2 million). (January 2005: £31.8 million: NBV £16.7 million). These valuations have not been included in the Balance Sheet (refer note 10).

Environment

Introduction

The Group is committed to minimising adverse environmental impacts. It is the Board's 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. In line with the reporting requirements under the EU Accounts Modernisation Directive, we continue to use quantifiable Key Performance Indicators (KPIs) to report on environmental matters.

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

Since 2004 we have used Trucost Plc to assess our overall environmental impact, including that of our supply chain. We continue to focus our efforts on our greenhouse gas emissions (including energy use), water use and waste, which Trucost identified as our key environmental KPIs in line with the UK Government's Environmental Key Performance Indicators: Reporting Guidelines for UK Business. The minimisation of emissions of greenhouse gases, and in particular carbon dioxide, is our greatest environmental priority. Last year we set a target of reducing our indirect CO2 by 4% on a normalised basis. We achieved 1.8%. The target was not reached due to increased electricity use with the opening of two new sites and refitting other existing sites. However, our commitment to reducing emissions is underlined by our continued use of Green Energy plc which now supplies 61% of our electricity. This means that 6% of our electricity is generated by renewable energy. Our strategy to manage waste is proving to be very effective. This year 30% of our waste, on a normalised basis, was recycled. Last year it was 2.6%. This includes customer waste which forms the majority of the landfill waste and over which our influence is more limited. We are monitoring hazardous waste but, as it is of a negligible amount, we have not reported on it.

Environmental Key Performance Indicators (for period covering Financial Year 2006)

Direct Impacts (Operational)

			Quantity			
			2005	2006	2005	2006
Greenhouse gases	Definition	Data source and calculation methods	Absolute	Absolute	Normalised*	Normalised*
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	88 tonnes CO_2	93 tonnes CO_2	11	10
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	71 tonnes CO_2	12	8
Total			180 tonnes CO_2	164 tonnes CO_2	23	18

			Quantity			
			2005	2006	2005	2006
Waste	Definition	Data source and calculation methods	Absolute	Absolute	Normalised*	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	751 tonnes	117	86
Recycled	General office waste recycled, primarily cardboard and fluorescent lights.	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	325 tonnes	3	36

Indirect impacts (supply chain)

			Quantity			
			2005	2006	2005	2006
Greenhouse gases	Definition	Data source and calculation methods	Absolute	Absolute	Normalised*	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	977 tonnes CO_2	111	109

			Quantity			
			2005	2006	2005	2006
Water	Definition	Data source and calculation methods	Absolute	Absolute	Normalised*	Normalised*
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	5,143 m^3	5,048 m^3	662	564

*Normalised based on annual revenue for the respective years.

Directors' Report

Share Capital
Further details are given in the Financial Review and in note 17.

Statement of Disclosure of Information to Auditors
The directors who were in office at the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Annual General Meeting
The Company's Annual General Meeting will be held on 7 December 2006 at 11.00 am at the offices of Maclay Murray Spens, One London Wall, London EC2Y 5AB.

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

Simon G Thomas
Chairman
27 October 2006

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 this Guidance.

Narrative Statement
Directors
There is a Board of directors, which is set up to control the Company and consists of four executive and two non-executive directors. The Board considers all of the non-executive directors to be independent of the Group. SG Thomas is Chairman of the Board 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.

RJ Holmes continues as the senior independent director.

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 consists of RJ Holmes (Chairman of the Committee) and RW Jackson. The Committee meets and considers, within existing terms of reference, 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 are set out in note 6 in the Notes to the Financial Statements.

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 whistleblowing 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 RW Jackson (Chairman of the Committee) and RJ Holmes. 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 consider 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.

By order of the Board

Simon G Thomas
Chairman
27 October 2006

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. 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 2006 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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether, in our opinion, the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Financial Review that is cross referenced from the Review of the Business and Future Developments section of the Directors' Report.

In addition we report to you if, in our opinion, 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 and the Corporate Governance Statement. 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 International Standards on Auditing (UK and Ireland) 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 and Company'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Parent Company's affairs as at 31 July 2006 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST
27 October 2006

Consolidated Profit and Loss Account

for the year ended 31 July 2006

	Notes	2006 £	2005 £
Turnover	1	**8,946,083**	7,774,541
Operating expenses	2	**(8,094,732)**	(7,167,580)
Operating profit		**851,351**	606,961
Interest receivable	3	**36,936**	35,898
Profit on ordinary activities before interest payable		**888,287**	642,859
Interest payable	4	**(763,986)**	(528,534)
Profit on ordinary activities before taxation	5	**124,301**	114,325
Taxation	7	**(100,483)**	–
Profit for the year	18	**23,818**	114,325
Earnings per share			
Basic	8	**0.10p**	0.47p
Diluted	8	**0.09p**	0.44p

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 2006

	Notes	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Fixed assets					
Intangible assets	9	334,813	359,068	–	–
Tangible assets	10	25,430,037	20,032,760	–	–
Investments	11	–	–	214,563	214,563
		25,764,850	20,391,828	214,563	214,563
Current assets					
Stocks	12	77,668	88,648	–	–
Debtors	13	2,022,769	1,684,793	6,040,331	6,025,331
Cash at bank and in hand		921,928	424,738	–	–
		3,022,365	2,198,179	6,040,331	6,025,331
Creditors: Amounts falling due within one year	14	(3,877,489)	(3,736,384)	–	–
Net current (liabilities)/assets		(855,124)	(1,538,205)	6,040,331	6,025,331
Total assets less current liabilities		24,909,726	18,853,623	6,254,894	6,239,894
Creditors: Amounts falling due after more than one year	15	(14,066,802)	(8,150,000)	–	–
Provision for liabilities and charges	16	(100,483)	–	–	–
Net assets		10,742,441	10,703,623	6,254,894	6,239,894
Capital and reserves					
Called up share capital	17	250,911	250,711	250,911	250,711
Share premium account	18	66,776	51,976	66,776	51,976
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	(1,298,162)	(1,321,980)	–	–
ESOP shares	19	(509,586)	(509,586)	–	–
Shareholders' funds	20	10,742,441	10,703,623	6,254,894	6,239,894

Approved by the Board of Directors and authorised for issue on 27 October 2006 and signed on its behalf by:

A Jacobs
Chief Executive

R Davies
Finance Director

Consolidated Cash Flow Statement

for the year ended 31 July 2006

	Notes	2006 £	2005 £
Cash flow from operating activities	21a	**1,603,118**	1,983,832
Returns on investments and servicing of finance	21b	**(771,211)**	(500,901)
Taxation		**(50,500)**	–
Capital expenditure and financial investment	21b	**(6,273,461)**	(2,293,945)
Cash outflow before financing		**(5,492,054)**	(811,014)
Financing	21b	**5,989,244**	581,392
Increase/(decrease) in cash in the period		**497,190**	(229,622)

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

	Notes	2006 £	2005 £
Increase/(decrease) in cash in the period		**497,190**	(229,622)
Cash inflow from increase in debt and lease financing		**(5,974,244)**	(549,852)
Movement in net debt in period		**(5,477,054)**	(779,474)
Net debt at 1 August		**(7,725,262)**	(6,945,788)
Net debt at 31 July	21c	**(13,202,316)**	(7,725,262)

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 2006.

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 two 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.

Pension 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 2006

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

	2006 £	2005 £
Administration expenses		
Recurring expenses	**8,094,732**	7,167,580

3 Interest Receivable

	2006 £	2005 £
Bank interest	**36,936**	35,898

4 Interest Payable

	2006 £	2005 £
Finance leases	**–**	42
Bank loans	**763,986**	528,492
	763,986	528,534

5 Profit on Ordinary Activities Before Taxation

	2006 £	2005 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible fixed assets:		
– owned assets	**875,203**	728,522
Amortisation of goodwill	**24,255**	24,255
Operating lease rentals:		
– Land and buildings	**1,292,286**	1,294,527
Auditors' remuneration		
Audit services		
– statutory audit	**33,500**	25,100
Further assurance services		
– interim review	**4,000**	3,150
Tax services		
– compliance services	**8,690**	6,850
– advisory services	**3,800**	6,100
Other services		
– corporate finance work in respect of share buyback/return of capital to shareholders	**–**	9,100
	49,990	50,300

6 Employees

	2006 No.	2005 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Store management	**85**	75
Administration	**19**	19
	104	94

	2006 £	2005 £
Staff costs for the above persons:		
Wages and salaries	**1,979,012**	1,779,142
Social security costs	**188,376**	170,496
Pension costs	**18,819**	24,431
	2,186,207	1,974,069

In relation to pension contributions, there was £1,429 (2005: £1,767) outstanding at the year-end.

Directors' Remuneration

2006	Emoluments £	*Fees £	*Bonuses £	Benefits £	Gains on share options £	Total £
A Jacobs*	150,000	–	35,000	1,917	–	186,917
SG Thomas*	75,000	–	35,000	1,644	–	111,644
RA Davies**	90,000	–	7,500	–	–	97,500
CM Jacobs	49,500	–	–	1,651	–	51,151
RJ Holmes	15,000	–	–	–	–	15,000
RW Jackson	15,000	–	–	–	–	15,000
MJG Stanton	15,000	–	–	–	–	15,000
	409,500	–	77,500	5,212	–	492,212

2005	Emoluments £	*Fees £	Bonuses £	Benefits £	Gain on share options £	Total £
A Jacobs	150,000	–	–	1,603	–	151,603
SG Thomas	75,000	–	–	1,577	–	76,577
RA Davies	82,917	–	7,500	–	–	90,417
CM Jacobs	47,500	–	11,875	1,458	23,160	83,993
RJ Holmes	15,000	–	–	–	–	15,000
RW Jackson	15,000	–	–	–	–	15,000
MJG Stanton	15,000	–	–	–	–	15,000
	400,417	–	19,375	4,638	23,160	447,590

* During the year services totalling £287,528 (2005: £285,183) were provided by Value Added Services Limited, a company in which Andrew Jacobs and Simon Thomas 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 and additionally includes performance bonuses of £70,000 (2005: £nil) paid to VAS. See note 29 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 £2,700 (2005: £2,550) were paid by the Company on behalf of one (2005: one) director. The highest paid director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the directors.

Notes to the Financial Statements

for the year ended 31 July 2006

7 Taxation

	2006 £	2005 £
Current tax charge for the year (see below)	–	–
Deferred tax		
Origination and reversal of timing differences	(100,483)	–
Total deferred tax charge for the year (refer note 16)	(100,483)	–
Tax on profit on ordinary activities	(100,483)	–

The tax assessed is lower than the standard rate of corporation tax in the UK (30%). A reconciliation of the factors affecting the tax charge for the year is shown below:

	2006 £	2005 £
Profit on ordinary activities before tax	124,301	114,325
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	37,290	34,298
Expenses not deductible for tax purposes	19,534	15,295
Capital allowances for period in excess of depreciation	(159,558)	(82,429)
Tax losses not utilised	123,173	60,552
General provision	(101)	(203)
Deduction for employee share options	(15,000)	(23,277)
Depreciation on revenue items capitalised	(5,338)	(4,236)
Current tax charge for the year	–	–

The Group has revenue tax losses of approximately £3.4 million available to carry forward against future taxable profits of the same trade (refer note 16).

The current year tax charge relates to a movement in deferred tax arising on accelerated capital allowances in excess of depreciation after taking account of all revenue losses.

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, or in the case of the Kingston and Reading sites with their residential development value as disclosed in note 10, an estimate of the tax payable on the gain arising would be approximately £10.6 million. 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.

8 Earnings per Ordinary Share

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

	2006 £	2005 £
Profit for the financial year	124,301	114,325

	2006 No. of shares	2005 No. of shares
Weighted average number of shares		
For basic earnings per share	24,453,288	24,432,491
Dilutive effect of share options	1,526,446	1,414,688
For diluted earnings per share	25,979,734	25,847,179

9 Intangible Fixed Assets

Group	Purchased goodwill £
Cost	
1 August 2005 and 31 July 2006	485,093
31 July 2006	
Amortisation	
1 August 2005	126,025
Charged in year	24,255
31 July 2006	**150,280**
Net book value	
31 July 2006	**334,813**
31 July 2005	359,068

10 Tangible Fixed Assets

Group	Freehold properties £	Short leasehold improvements £	Furniture, fixtures and fittings £	Motor vehicles £	Total £
Cost					
1 August 2005	14,453,112	1,497,642	7,456,771	69,049	23,476,574
Additions	4,074,589	97,935	2,101,005	–	6,273,529
Disposals	–	–	–	(8,643)	(8,643)
31 July 2006	**18,527,701**	**1,595,577**	**9,557,776**	**60,406**	**29,741,460**
Depreciation					
1 August 2005	427,482	502,463	2,472,585	41,284	3,443,814
Charged in year	112,596	130,592	626,033	5,982	875,203
Disposals	–	–	–	(7,594)	(7,594)
31 July 2006	**540,078**	**633,055**	**3,098,618**	**39,672**	**4,311,423**
Net book value					
31 July 2006	**17,987,623**	**962,522**	**6,459,158**	**20,734**	**25,430,037**
31 July 2005	14,025,630	995,179	4,984,186	27,765	20,032,760

The additions to freehold properties include the acquisition and development of the freehold sites in Hawley Lane, Farnborough and at Optima Business Park, Crayford, totalling £3.8 million. The additions to fixtures and fittings includes fit-outs at Tonbridge, Poole, Sunbury, Luton, Eastbourne and Milton Keynes stores.

Notes to the Financial Statements

for the year ended 31 July 2006

10 Tangible Fixed Assets continued

Market Valuation of Freehold and Leasehold Land and Buildings

On 31 July 2006, a professional valuation was prepared by external valuers, Cushman & Wakefield (C&W), in respect of 12 freehold and 6 leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards, 5th Edition, published by The Royal Institution of Chartered Surveyors ('the Red Book'). The valuations were prepared on the basis of Market Value for the two non trading properties and, for the 16 trading properties, Market Value as a fully equipped operational entity, having regard to trading potential. The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book, C&W have confirmed that:

- The members of the RICS who have been the signatories to the valuation provided to the Company for the same purposes as this valuation have done so since January 2004.
- C&W have prepared two previous valuations for the same purpose as this valuation on behalf of the Company.
- C&W do not provide other significant professional or agency services to the Company
- In relation to the preceding financial year of C&W, the proportion of the total fees payable by the Company to the total fee income of the firm is less than 5%.

The valuation report indicates a total for all properties valued of £66.6 million (NBV £25.2 million) (January 2005: £31.8 million: (NBV 16.7 million)). These valuations have not been included in the Balance Sheet.

The 2006 valuation includes the new stores Farnborough and Crayford and reflects the uplift in value which has resulted from the grant of planning permission and the execution of the S.106 Agreement at the Kingston site. In relation to the existing store at Reading, there is potential for redevelopment for residential use. Accordingly the site has been valued as an operating self storage facility but with an additional uplift to reflect residential development potential but recognising that this has yet to be obtained. The valuations also do not account for any further investment in existing centres since July 2006. While the Company does not envisage routinely revaluing its properties it will continue to 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 5 operators accounting for less than 20% 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 on the basis of Market Value as fully equipped operational entities, having regard to trading potential. This approach is recognised in the Red Book and is adopted for other categories of property that are normally bought and sold on the basis of their trading potential. Examples include hotels, licensed properties, marinas and petrol stations.

The UK self storage sector differs from the USA in that the five larger groups control over 50% of the market by net rentable storage space. The scope for active trading of these property assets is therefore likely to be less, however there is now some evidence that there will be increasing liquidity with recent sales of independently owned product in larger conurbations.

In addition the acquisition of Shurgard Storage Centres, Inc. by Public Storage, Inc. was announced in March this year including a portfolio of over 140 trading storage facilities in Europe, with 18 in the UK.

C&W believe that the valuation methodology adopted in the USA is the most appropriate for the UK market.

Methodology

C&W have adopted different approaches for the valuation of the leasehold and freehold assets as follows:

Freehold

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

Assumptions

A. Net operating income is based on projected revenue received less projected operating costs together with a central administration charge representing 6% of the estimated annual revenue. The initial net operating income is calculated by estimating the net operating income in the first twelve months following the valuation date.

B. The net operating income in future years is calculated assuming straight-line absorption from day 1 actual occupancy to an estimated stabilised/ mature occupancy level. In the valuation the assumed stabilised occupancy level for the sixteen stores (both freehold and leaseholds) averages 78.28% (2005:78.20%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.

C. The capitalisation rates applied to existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, bank base rates, ten-year money rates, inflation and the available evidence of transactions in the sector. On average, for all sixteen stores, the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 6.05% (2005: 6.00%). This rises to 10.54% (2005: 12.86%) based on the projected cash flow for the first year following estimated stabilisation in respect of each property.

D. 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 11.31% (2005: 12.50%).

E. Purchaser's costs of 5.75% have been assumed initially and sale plus 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 used as for freeholds, except that no sale of the assets in the 10th year are assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's leaseholds is approximately 11 years and 2 monthS as at 31July 2006 (11 years and 1 month as at January 2005).

11 Investments

Company	Shares in subsidiary undertakings £
Cost	
At 1 August 2005 and 31 July 2006	
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	Indirectly	Nature of business
Lok'nStore Limited	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited	Ordinary	–	100	Trustee company

12 Stocks

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Consumables and goods for resale	**77,668**	88,648	**–**	–

13 Debtors

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Due within one year:				
Trade debtors	**807,347**	718,282	**–**	–
Other debtors	**83,190**	63,806	**–**	837
Amounts owed by subsidiaries	**–**	–	**6,040,331**	6,024,494
Prepayments and accrued income	**1,132,232**	902,705	**–**	–
	2,022,769	1,684,793	**6,040,331**	6,025,331

Notes to the Financial Statements

for the year ended 31 July 2006

14 Creditors: Amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	1,039,688	1,321,098	–	–
Taxation and social security costs	281,622	148,425	–	–
Corporation tax	–	45,700	–	–
Other creditors	911,432	782,131	–	–
Accruals and deferred income	1,644,747	1,439,030	–	–
	3,877,489	3,736,384	–	–

15 Creditors: Amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans repayable in more than two years but not more than five years				
Gross	14,124,244	8,150,000	–	–
Deferred financing costs	(57,442)	–	–	–
Bank loans repayable in more than two years but not more than five years				
Net	14,066,802	8,150,000	–	–

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.

16 Provision for Liabilties and Charges

	2006 £	2005 £
Accelerated capital allowances	1,132,287	–
Tax losses carried forward	(1,031,375)	–
Other timing differences	(429)	–
Provision for deferred tax	100,483	–
Provision at start of period	–	–
Deferred tax charge in profit and loss account	100,483	–
Provision at end of period	100,483	–

17 Share Capital

	2006 £	2005 £
Authorised:		
35,000,000 Ordinary Shares of 1p each (2005: 35,000,000)	**350,000**	350,000

Allotted, issued and fully paid Ordinary Shares:

	Number of shares	£
At 1 August 2005	25,071,144	250,711
Options exercised	20,000	200
At 31 July 2006	**25,091,144**	**250,911**

During the year, options were exercised on 20,000 Ordinary Shares at 38 pence per share and that number of shares were issued for a consideration of £7,600.

At the Company's AGM on 1 December 2005, 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 2005	51,976	6,295,295	5,903,002	34,205	(1,321,980)	10,962,498
Exercise of share options	14,800	–	–	–	–	14,800
Profit for the year	–	–	–	–	23,818	23,818
31 July 2006	**66,776**	**6,295,295**	**5,903,002**	**34,205**	**(1,298,162)**	**11,001,116**

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 2006 Number	Group 2005 Number	Group 2006 £	Group 2005 £
1 August 2005 and 31 July 2006	**627,500**	627,500	**509,586**	509,586

The ESOP shares are held by the employee benefit trust (see note 27).

Notes to the Financial Statements

for the year ended 31 July 2006

20 Reconciliation of Movement in Shareholders' Funds

	Group 2006 £	Group 2005 £
Profit for the financial year	23,818	114,325
Share issue on exercise of share options	200	230
Premium on exercise of share options	14,800	30,480
Net movement in shareholders' funds for the year	38,818	145,035
Opening shareholders' funds	10,703,623	10,558,588
Closing shareholders' funds	10,742,441	10,703,623

21 Cash Flows

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

	2006 £	2005 £
Operating profit	851,351	606,961
Depreciation	875,203	728,522
Amortisation	24,255	24,255
Loss on sale of fixed assets	980	–
Decrease in stocks	10,980	15,232
(Increase)/decrease in debtors	(330,187)	263,089
Increase in creditors	170,536	345,773
Net cash flow from operating activities	1,603,118	1,983,832

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

	2006 £	2005 £
Returns on investments and servicing of finance		
Interest received	36,936	35,898
Interest paid	(808,147)	(536,757)
Interest element of finance lease rental payments	–	(42)
Net cash outflow for returns on investments and servicing of finance	(771,211)	(500,901)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(6,273,529)	(2,293,945)
Proceeds from sale of tangible fixed assets	68	–
Net cash outflow for capital expenditure and financial investment	(6,273,461)	(2,293,945)
Financing		
Bank loans	5,974,244	550,000
Capital element of finance lease rental payments	–	(148)
Exercise of share options	15,000	31,540
Net cash inflow from financing	5,989,244	581,392

21 Cash Flows continued

c Analysis of net debt

	At 31 July 2005 £	Cash flow £	Other non cash changes £	**At 31 July 2006 £**
Cash at bank and in hand	424,738	497,190	–	**921,928**
Debt due after one year	(8,150,000)	(5,974,244)	–	**(14,124,244)**
Total	(7,725,262)	(5,477,054)		**(13,202,316)**

22 Commitments Under Operating Leases

At 31 July 2006 the annual commitments under non-cancellable operating leases were as follows:

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Land and buildings				
expiring within one year	**179,996**	115,000	**–**	–
expiring in the second to fifth year	**–**	69,996	**–**	–
expiring after five years	**1,121,438**	1,091,415	**–**	–
	1,301,434	1,276,411	**–**	–

23 Share Option Agreements

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

	As at 31 July 2005	Granted £	Exercised £	**As at 31 July 2006**	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	992,978	–	–	**992,978**	37	04.04.02	03.04.07
SG Thomas	496,489	–	–	**496,489**	37	04.04.02	03.04.07
CM Jacobs	130,000	–	–	**130,000**	37	04.04.02	03.04.07
P Crisp	62,000	–	(40,000)	**22,000**	38	04.04.02	03.04.07

The total number of share option agreements outstanding at the year-end was 1,641,468 as outlined above. The criteria for exercising these options are as follows:

1. Group turnover exceeds £5 million.
2. Share price exceeds 150 pence.
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. The share price at the year end was 156 pence per share. The share price ranged from 139 pence per share to 178 pence during the year.

	As at 31 July 2005	Granted £	Exercised £	**As at 31 July 2006**	Exercise price (pence)	Date from which exercisable	Expiry date
CM Jacobs	540	–	–	**540**	191	30.04.04	30.04.09
CM Jacobs	25,000	–	–	**25,000**	102	20.01.07	20.01.14
CM Jacobs	22,759	–	–	**22,759**	113	30.07.07	30.07.14
CM Jacobs	31,414	–	–	**31,414**	152	30.07.08	30.07.15
RA Davies	98,039	–	–	**98,039**	102	19.01.07	19.01.14

56,656 options were granted to other key management for an exercise price of 1.765 pence per share and a further 61,938 options for an exercise price of 156 pence per share during the year. The total number of EMI options outstanding as at the year-end were 662,343 (2005: 678,977).

The table below summarises those options not held by directors:

Date from which exercisable	Options held (no.)	Exercise price (pence)
30.04.04	56,781	191
01.10.04	5,108	140
31.10.05	47,500	93
27.11.06	57,500	93.5
30.07.07	123,102	113
30.07.08	76,007	152
24.04.09	56,656	176
31.07.09	61,938	156
	484,592	

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

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

25 Approved Share Option Scheme

No share options were granted under this scheme during the year (2005: nil).

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

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

Since year ended 31 July 2002, the Company's turnover has exceeded £5 million. The total number of approved options outstanding as at the year-end remains unchanged at 22,377 (2005: 22,377). Refer to table below. None of these options are held by directors:

	Date from which exercisable	Options held (no.)	Exercise price (pence)
	08.07.02	13,621	73
	31.05.03	8,756	171
		22,377	

26 Unapproved Share Options

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

	As at 31 July 2005	Granted £	Exercised £	**As at 31 July 2006**	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
A Jacobs	–	50,000	–	**50,000**	156	31.07.09	31.07.16
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
S Thomas	–	50,000	–	**50,000**	156	31.07.09	31.07.16
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
R Davies	–	100,000	–	**100,000**	156	31.07.09	31.07.16
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

Notes to the Financial Statements

for the year ended 31 July 2006

The total number of unapproved options outstanding as at the year-end was 1,062,380 (2005: 668,856). The table below summarises those options not held by directors:

Date from which exercisable	Options held (no.)	Exercise price (pence)
08.07.02	13,621	73
31.05.03	11,674	171
31.10.05	15,000	93
20.01.07	*50,000	102
30.07.07	11,898	113
30.07.08	63,993	152
24.04.09	43,344	176.5
31.07.09	155,062	156
	364,592	

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

The share options exercisable from 8 July 2002 and 31 May 2003 will only be exercisable upon the achievement of one of the following performance criteria:

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

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

All other options will only be exercisable upon the achievement of one of the following performance criteria:

1 The turnover for any period commencing after the date of grant has exceeded £10 million.
2 The profits for any period commencing after the date of grant has exceeded £3 million.
3 The share price has exceeded £5.
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 deduction from employees' salaries on a monthly basis as they so instruct for purchase of shares in the Company. Shares are allocated to employees at the prevailing market price when the salary deductions are made.

As at 31 July 2006, the Trust held 627,500 Ordinary Shares of 1 pence each with a market value of £953,800. No dividends were waived during the year. No options have been granted under the EBT.

28 Events after the balance sheet date

On 25 September 2006, Lok'nStore Limited exchanged contracts on the purchase of a freehold site in Portsmouth with a contractual completion date set for 27 November 2006. The purchase price is £2,025,000 and the property will be refurbished and fitted out for a further cost of approximately £2 million. The refurbished store will open in 2007.

29 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 6. 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 was £24,100 (ex VAT) (2005: £23,765).

The Company uses Trucost PLC an environmental research company to provide information and undertake performance assessment of the environmental effect of its business activities. Trucost PLC is a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Trucost PLC in respect of its environmental assessment and reporting for the year was £5,525 (2005: £4,850).

During the year the Company entered into a retainer agreement for investor relations services with h2glenfern Consulting Limited, a company in which Robert Jackson has a beneficial interest. The total fees payable to h2glenfern Consulting Limited are £1,500 per month (2005: £1,000 per month). There was £4,500 (ex VAT) outstanding due to h2glenfern Consulting Limited (formerly H2JL Limited) at the year-end. The maximum balance outstanding at any time during the year was £4,500 (ex VAT) (2005: £2,000 (ex VAT)).

30 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. No trading in financial instruments has been 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 and are detailed in note 15. 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% margin for the revolving advances amounting to £14.12 million.
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. All amounts are denominated in sterling. The balances at 31 July 2006 are as follows:

	2006 **£**	2005 £
Balances attracting no interest	**–**	–
Fixed rate treasury deposits	**–**	–
Variable rate treasury deposits*	**1,040,941**	451,583
	1,040,941	451,583

* Money market rates as at 31 July 2006 attributable to variable rate deposits 4.41% to 4.50%.

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 £20 million (2005: £20 million). This facility expires on 15 July 2010. Undrawn committed facilities at the year-end amounted to £5,875,756 (2005: £11,850,000).

Interest Cover and Balance Sheet Risk

The Group reviews the current and forecast projections of cash flow, borrowing and interest cover as part of its monthly management accounts review. In addition, an analysis of the impact of significant transactions is carried out regularly, as well as a sensitivity analysis assuming movements in interest rates on gearing and interest cover.

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.

31 Capital commitments and guarantees

The Group has capital expenditure contracted for but not provided for in the financial statements of £422,518 (2005: £5,150,251). The outstanding commitments relate to the fitting out of the Milton Keynes and Farnborough stores.

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that company had gross bank borrowings of £14.12 million (2005: £8.15 million).

Notes

Notes

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Designed and produced by **Emperor Design Consultants Ltd**
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