Annual Report & Accounts

2009

The big friendly storage company

LOK'nSTORE
Business & Household Self Storage

Contents

Highlights

Financial Highlights

- Revenue £10.01 million down 7.6% (2008: £10.83 million)
- Group EBITDA £2.45 million down 10.4% (2008: £2.73 million)
- Average interest rate 3.37% (2008: 7.28%)
- Adjusted NAV* £2.07 per share (31.01.09: £2.00 per share, 2008: £2.44 per share)
- Full year dividend proposed 1 pence per share (2008: 1** pence per share)

* Refer to page 13 for detailed calculation.
** 2008 interim dividend of 0.33 pence together with a final dividend of 0.67 pence per share.

Operational Highlights

- Occupancy 561,148 sq ft up 1.7% (2008: 551,824 sq ft)
- Prices for self-storage down 2.3%
- Ancillary income up 16.9%
- Operating costs reduced by 6.6%
- Store EBITDA margins (stores over 100 weeks) 42.9% (2008: 43.3%)
- Store EBITDA £3.9 million (2008: £4.61 million) down 15%
- Freeholds stores over 250 weeks achieved 58% EBITDA margin (2008: 56%) (same stores)

Property Highlights

- Purpose-built new Harlow store opened and trading well
- Planning permission achieved for Southampton, Portsmouth North Harbour and Maidenhead stores
- Improved planning permission achieved for new Reading store
- Planning permissions now in place on all stores in pipeline (4 stores)
- Property portfolio valued at £78.4 million (31.01.09: £76.8 million, 2008: £86.4 million)
- Loan to value ratio of 31.7%***

*** Calculation based on net debt of £24.9 million.

Net asset value per share

£2.07

Full year dividend per share

1 pence

Group EBITDA

£2.45m

Andrew Jacobs, CEO commented:

"Over the last year Lok'nStore's business has adapted and proven to be resilient against a background of unprecedented conditions in the property and financial markets. In response to these conditions we have reduced operating and finance costs and curtailed capital expenditure during the year to improve cash flow. Our management team has responded to the challenging trading conditions and we finished the financial year with occupancy up on last year. Since the beginning of 2009 trading has been encouraging with reservations, enquiries, square feet let and number of customers all increasing.

Since the end of January our asset value has risen and we retain a conservative loan to value ratio of 31.7%. We now have planning permission for all of our new store sites and we are looking to build these out when the economy stabilises.

Our confidence in the strength of the business is underlined by the payment of the full year dividend for this financial year."

Chairman's Review

Overview

Lok'nStore business has been resilient in unprecedented markets. This financial year was very much a 'year of two halves' with the first half being set against a virtual collapse in the global financial system, and the second half stabilising as the huge expansionary fiscal and monetary policies took effect.

In the first six months Lok'nStore saw occupancy decline in a difficult trading environment. Our management team responded to this with a series of strong sales, marketing and operational initiatives and business changed markedly from January 2009 with all of our lead indicators turning positive. At the year-end we had regained all of our earlier occupancy declines and total occupancy stood at nearly 2% up on the year.

Backed by substantial property assets Lok'nStore has retained good operating margins and solid cash flow throughout the year. We successfully cut costs throughout the year to protect margins and we curtailed capital expenditure to preserve cash. We have carefully managed interest rate exposure and as rates fell we saw an immediate and significant benefit particularly in terms of the additional cash retained within the business.

In January 2009 the management valued the property portfolio resulting in an adjusted net asset value of £2.00 per share. The portfolio has been externally valued at the year-end and this has resulted in an adjusted net asset value of £2.07 per share a 3.5% increase from January (down 15.2% year on year).

During the year we comfortably complied with all banking covenants and continue to do so. Our existing bank facility runs until 2012.

Conditions in the Economy and Self-storage Market

Historically the self-storage market has been considered to be highly correlated to the housing market. This is not the case. Lok'nStore earns 38% of its revenue from the corporate sector. Of the 62% of its revenue from the household sector, there are many reasons why our customers store such as births, marriages, divorce and death, that are not directly related to moving house.

To the extent that the housing market does have an impact the demand for storage is affected more by the number of house moves than by the level of house prices. Transactions in the UK housing market collapsed from a peak of 158,000* in December 2006 to 74,000 in July 2008 and dropped to a low of 41,000 transactions in January 2009. For the financial year under review housing transactions dropped 40.7% from the previous year. Against these startling declines in housing transactions Lok'nStore has proved its resilience against low housing market volumes with revenue declining only 7.6% compared to last year.

During the year we have reduced operating costs by 6.6%. This is a particularly good outcome given that we were operating two more stores during the course of the year than in the previous year. We will continue to be vigilant on costs.

Our new Harlow store opened on 2 January 2009 and is trading well achieving cash break even by month seven. The Harlow store valuation is an uplift of 24.4% on its cost.

Importantly, with the opening of Harlow the Group has no further new build capital commitments. As a result of the work that we have done during the year we now have existing planning permissions on all of our sites (see Property Review). As trading conditions continue to improve we will consider conditions in the wider economy and the UK self-storage market in particular as we look to build out the pipeline.

Net Asset Value

Our 12 freehold stores are held in the balance sheet at fair value, and have been valued externally by Cushman and Wakefield. (Refer to note 11a – property, plant and equipment and also to the accounting policies in relation to the fair value of trading properties on page 34). The leasehold stores are held as 'operating leases' and are not taken onto the balance sheet. However seven of these have also been externally valued and these external valuations have been used to calculate the net asset value position of the Group. The adjusted net asset value per share has decreased from £2.44 last year to £2.07 this year (see Financial Review). Notably this is up 3.5% from the £2.00 per share from the management valuation in January 2009. The year-end valuation equates to a total value of properties held of £78.4 million (2008: £86.4 million).

The Self-storage Market in the UK

The self-storage market in the UK has grown rapidly over the last decade and continues to offer a great opportunity, particularly to major operators such as Lok'nStore. The 2008 UK

* Government Office for National Statistics

Operating costs down

6.6%

Self-Storage Association Industry report prepared by Mintel estimated that the industry had grown by between 8% and 15% annually over the past five years. There are now over 300 separate companies operating self-storage facilities in the UK with around 45% of the available space in the hands of the larger operators. Lok'nStore is the fourth largest and one of three quoted storage operators in the UK. The industry now generates revenues of about £360 million per annum, has over 235,000 customers and employs over 2,700 people directly in the business.

The more mature US market grew from 2.9 sq ft per head of population in 1994 to 7.2 sq ft in 2008 with nearly 52,700 facilities throughout the US. There are also 1,300 facilities in Australia and New Zealand representing around 1.1 sq ft per member of the population. This compares with 0.44 sq ft in the UK spread across around 750 facilities. This lower penetration in the UK contrasts with the difference in population density which is only 32 per sq km in the US against 246 per sq km in the UK. This creates far more pressure to use property resources efficiently in the UK, which is a notable driver of demand for self-storage. Combined with this, the restrictive town planning regime in the UK is a strong barrier to entry in the industry, although in the short to medium term more property will become available to the self-storage industry as competitive uses for sites struggle economically. Therefore despite the current economic environment we believe that the UK self-storage market offers excellent medium and long-term potential and Lok'nStore is well positioned to capitalise on this.

Directors

Robert Jackson retires by rotation and will not be seeking re-election. The Board wish to thank Robert for his valued contribution to the business throughout nearly six years of tenure. Having strengthened the non-executive team in recent years it is not the intention of the Board to replace Robert. Edward Luker, the senior independent non-executive will become Chairman of the Audit Committee.

Dividend

In the light of the challenging trading conditions in the first half of this financial year, the Directors prudently decided to defer a decision on payment of the interim dividend until the trading outlook was clearer. With the second half of the year seeing a sustained improvement in trading and total occupancy standing at nearly 2% up on the year overall, the Directors propose, in respect of the current year, that a full year dividend of 1 pence per share will be paid on 18 December 2009 to shareholders on the register on 20 November 2009. This compares to a total annual dividend of 1 pence in the previous financial year (comprising 0.33 pence by way of an interim dividend and 0.67 pence by way of a final dividend).

Going forward, the Directors anticipate that the Group's dividend policy will be consistent with its policy in previous years with the interim dividend being paid in, or about, June and the final paid in, or about, December of each year and the interim dividend will represent approximately one third of the expected total annual dividend.

The total estimated dividend to be paid in the current financial year is £249,946 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefit Trust and for shares held on Treasury. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Outlook

Lok'nStore's flexible business model has allowed it to ride out comfortably the current turbulent economic conditions. Since the beginning of 2009 trading has been consistently encouraging with reservations, enquiries, square feet let and number of customers all turning upwards. Turnover is now increasing with lower operating costs and lower financing costs boosting cash flow.

With Lok'nStore's robust business model we will maximise the cash flow from the existing portfolio. When economic conditions stabilise we are planning to build out our new stores as well as looking for new opportunities. All of our new sites now have planning permission.

Lok'nStore remains well positioned within the growing UK self-storage market. Your Board is recommending a full year dividend of 1 pence per share. This maintains the 2008 total dividend payout and demonstrates our confidence in the future of the Group.

Simon G Thomas
Chairman
6 November 2009

Chief Executive's Operating Review

EBITDA margin on established freehold stores

58%

Sales and Earnings Performance

Lok'nStore's strong business model and responsive management have insulated the business against the worst effects of the recession. Against the difficult economic backdrop revenue for the year was £10.01 million (2008: £10.83 million) a decrease of 7.6% year-to-year.

At the beginning of the financial year we positioned the business for an economic downturn by cutting costs and largely eliminating capital expenditure. With costs down 6.6% the cash flow of the operating business has remained resilient with store earnings before interest, tax, depreciation and amortisation (store EBITDA) at £3.92 million (2008: £4.61 million). This is a key performance indicator for the business and reflects both efficient operational management against a difficult backdrop, and the increasingly established nature of the existing portfolio.

During the year Lok'nStore had 17 established stores (over 250 weeks old) including two leasehold stores which joined this category during the year. These 17 stores made EBITDA margins of 41.5% this year compared to 41.9% last year. Overall EBITDA margins of the freehold stores were 54% and the leasehold stores achieved 22.2%.

At the end of July 2009 38.1% of Lok'nStore's revenue was from business customers (2008: 40.5%) and 61.9% was from household customers (2008: 59.5%). By number of customers this breakdown was 23.4% business customers (2008: 25.1%) and 76.6% household customers (2008: 74.9%).

Our average price achieved for storage space was £17.60 per sq ft per annum at 31 July 2009, down 2.3% (2008: £18.01 per sq ft per annum). This compares with the average of £21.08 for the UK industry (source Self-Storage Association Survey 2008). This positions Lok'nStore as the price competitive operator in a value conscious market, but with room to increase prices as economic conditions continue to stabilise.

Our sales and marketing team responded to the economic circumstances with a series of measures. One element of this was an emphasis on our ancillary sales. As a result packing materials, insurance and other sales increased by 16.9% over the year (2008: 0.5%) accounting for 9.5% of revenue (2008: 7.5%). Overall occupancy was up over the year by 1.7%.

Lok'nStore takes an active but pragmatic approach to yield management balancing pricing with the drive for occupancy growth. Average prices achieved for self-storage units decreased by 2.3% over the year (2008: increased 4.2%) as we introduced various offers. This has proved to be an effective strategy as occupancy has grown and pricing is now returning towards its levels of last year. We are confident that with our yield management system we will be able to increase prices by more than inflation over the medium term, while retaining our competitive pricing position in the market.

Our central sales team continue to run frequent sales training courses using the facilities in our flagship store in Farnborough. In addition, we regularly review the bonus scheme to link performance and reward more directly to revenue growth and consistently high quality customer service.

Marketing

During the year our marketing budget was slimmed down and focused on the most productive media with approximately 4.3% of revenue spent on advertising and marketing (including postage, printing and stationery), down from 5.8% in 2008.

The Internet produces an increasing proportion of our enquiries and physical directories a decreasing proportion and we continue to allocate more of our marketing budget towards the Internet. For this year Internet enquiries were up 58% and Internet customers up 51% on last year. Current business conditions mean that we continue to operate with a strong focus on cost control.

Enquiries from the Internet have a lower conversion ratio of around 27% (2008: 29%). Our overall conversion rate is 42% (2008: 44%).

As a reflection of the strength of our customer service 22% of our business is from referrals and previous and existing customers. 43% of our business comes from passing traffic so work on the visibility of our stores is also improving response to our marketing. Our new stores with their prominent positions, distinctive design and orange elevations help the profile of the whole Lok'nStore brand.

Our store personnel are closely involved with sales and marketing initiatives and work with our Head Office to ensure our marketing expenditure remains targeted and effective.

Systems
Centralisation of our store management computer system continues to yield marketing and other management information benefits and we remain committed to continuing systems centralisation, greater audit capability and the delivery of efficient and timely data.

We continue to enhance analysis and reporting of our core financials. This also integrates our stores and head office via a web-enabled system to deliver more automated and integrated processes in areas of petty cash and expenses handling as well as stock reporting. We continue to increase the penetration of our internal audits which is effective in terms of improved security, credit control and store presentation and is continually monitored and upgraded to ensure its effectiveness.

Security
The safety and security of our customers and their goods remains our highest priority. We invest in CCTV, intruder and fire alarm systems and the remote monitoring of our stores out of hours. We also have rigorous security procedures in relation to customers.

Our Corporate and Social Responsibilities
Lok'nStore conducts its business in a manner that reflects honesty, integrity and ethical conduct. We believe that the long-term success of the business is best served by respecting the interests of all our stakeholders. Management of social, environmental and ethical issues is of high importance to Lok'nStore. These issues are dealt with on a day-to-day basis by the Group's managers with principal accountability lying with the Board of Directors. We look actively for opportunities to address our responsibility to the environment, and we pay close attention to our energy use, carbon dioxide emissions, water use and waste production. Each year Lok'nStore commissions a full assessment of the Group's environmental impact and this is included elsewhere in the Director's Report.

Our Customers
We believe in clarity and transparency. Brochures and literature are written in plain English, explaining clearly our terms of business without hiding anything in the 'small print'. We are open and honest about our products and services and do not employ pressure selling techniques or attempt to take

Operational Performance of Stores

Store analysis Weeks old	July 2009 Pipeline	Under 100	100 to 250	Over 250	Total
Year ended 31 July 2009					
Revenue* (£'000)	–	171	1,171	8,560	9,902
Stores EBITDA (£'000)	**–**	**(257)**	**626**	**3,550**	**3,919**
EBITDA margin (%)	–	n/a	53.5	41.5	39.6
As at 31 July 2009					
Maximum Area ('000 sq ft)	143	109	128	846	1,226
Freehold and long leasehold ('000 sq ft)	143	69	128	439	779
Short leasehold ('000 sq ft)	0	40	0	407	447
Number of Stores					
Freehold and long leasehold	2	1	2	8	13
Short leasehold	0	1	0	9	10
Total stores	2	2	2	17	23

* In respect of the Farnborough store revenue includes a contribution receivable from Group Head Office in respect of the space and facilities the store provides for the Head Office function. This income to the store and the corresponding charge to Head Office is netted down in the Group revenue figures. Revenue from sites under development is excluded.

Chief Executive's Operating Review (continued)

Internet enquiries up year-on-year

58%

advantage of any vulnerable groups. If we make a mistake we acknowledge it, deal with the problem quickly, and learn from our error. We listen to our customers as we know that they can help us improve our service to them. In return 22% of our business comes from previous customers, existing customers taking more space, and customer referrals.

Dealing Responsibly with Our Suppliers

We are committed to conducting our business with suppliers in a fair and honest manner, with openness and integrity, operating in accordance with the terms and conditions agreed upon. We expect our suppliers to operate to these same principles.

Our People

At 31 July 2009, we had 105 employees (2008: 103).

We treat our employees with dignity and respect and are committed to providing a positive attitude in the business and an enjoyable working environment. We have developed a professional open culture where staff can exchange ideas and offer suggestions for work and business improvement. This encourages our staff to build on their skills, through appropriate training and regular performance review. Regular weekly training courses at our Farnborough Head Office support these objectives where we have a large conference room which can accommodate all our training requirements for the foreseeable future.

This reduces outgoings and increases and improves contact between Head Office and the stores by bringing staff into Head Office for regular training. This in turn contributes to attracting and retaining the right people which is key to the success of Lok'nStore. Additionally the Group supports employees undertaking National Vocational Qualifications.

All employees are eligible to participate in share ownership plans and 20% of our employees have employee benefit trust shares (scheme now closed) (2008: 24%) and 21% hold options (2008: 18%). 37% of the personnel are members of the contributory pension scheme (2008: 24%). Lok'nStore operates a Share Incentive Plan with 67% of employees participating in the Scheme (2008: 55%). This high level of participation is testament to the loyalty and commitment of our staff.

Our 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 our staff for their commitment to our business and for their hard work and efforts over the year to which the Group owes its continuing progress.

Andrew Jacobs
Chief Executive Officer
6 November 2009

The new Harlow store trading at cash break even by year-end

Property Review

Total property value

£78.4m

Property Assets and Net Asset Value

Lok'nStore's freehold and operating leasehold properties have been independently valued by Cushman & Wakefield ('C&W') at £67.6 million as of 31 July 2009 (July 2008: £72.1 million) compared to a historic cost value of £34.8 million (2008: £34.2 million). This is referred to further in the Financial Review and is detailed in note 11 of the notes to the financial statements. Adding our stores under development at cost, our total property valuation of £78.4 million (historic cost value £46.3 million) (2008: £45.5 million) translates into an adjusted net asset value of 207 pence per share, a decrease of 15% compared to last year. The value of the properties which were also valued in July 2008 and therefore on a comparable 'same store' basis showed a decrease of 12.1%. This represents an 11% decrease in capital growth (yield increase) and 1.1% decrease from operational performance.

We opened our new purpose-built store in Harlow in January 2009. This modern freehold store is located in an attractive market and is highly branded and prominent. It provides 69,000 sq ft of space, and increases the Group's total trading area when fully fitted to 1,067,000 sq ft. We are pleased with its trading to date and at the end of July 2009 it had already moved into a cash break even position after only seven months.

During the year we obtained planning permission for the new Southampton store, the Portsmouth North Harbour store and the Maidenhead store. We also renewed and improved the previous planning permission on our Reading site.

Development Sites

Lok'nStore has a freehold site in North Harbour, Portsmouth. The site extends to almost two acres and has planning permission to build a new self-storage centre of around 60,000 sq ft. The site fronts the A27 to the north of Portsmouth, is opposite a busy retail area and is prominent to the M27.

We also have a long leasehold site of 1.6 acres in Maidenhead which may ultimately provide up to 83,000 sq ft of self-storage space when completed. It is prominently located opposite a busy retail park. Total investment in the purpose-built store will be up to £7 million. The lease term runs until April 2076.

The exact timing of store openings will largely depend on market availability of sites and obtaining planning permission. We will retain our disciplined but flexible approach to site acquisition and view the current property investment market as a potential opportunity to acquire new stores. However with the current uncertain economic environment we are monitoring market conditions carefully before making further capital expenditures.

Improvement of Existing Stores

On 8 January 2008, Lok'nStore obtained planning permission for high-density residential development on the freehold site of its existing Reading store. The local planning committee originally rejected the application but our appeal has been upheld and permission has been granted. The permission is for 112 flats on the 0.66 hectare site.

The Group has planning permission for a new larger 53,500 sq ft store on its site opposite the existing store, an increase in space of 29%. The prominence and modern look of the new store with its distinctive orange livery will position Lok'nStore in a highly visible and easily accessible location adjacent to the A33 at the gateway to Reading. The existing

Occupancy up year-on-year

1.7%

self-storage business will be moved into the new store once it is complete.

When market circumstances are appropriate the site of the existing store may be sold with the benefit of its permission for residential development and the proceeds will be reinvested in our new store pipeline. The two properties in Reading were valued by C&W at £4.9 million (NBV £2.3 million).

We reported previously that we had acquired a freehold site on Third Avenue, Millbrook, Southampton through the acquisition in May 2007 of the entire share capital of Southern Engineering and Machinery Company Ltd. The site of 2.16 acres fronts the main access road to Southampton city centre. It will replace the existing Southampton Lok'nStore, which is located a few hundred metres away and currently provides up to 84,000 sq ft in a freehold property. On 30 September 2008, we secured planning permission on this new site and it can provide up to 100,000 sq ft of self-storage space.

The purpose-built store will capitalise on the prominent main roadside position using the strong Lok'nStore branding similar in design to the successful flagship Farnborough store. The increased prominence and modern look of the building will allow the business to leverage off the existing business which is trading well, increasing both the volume of space rented and the rates achieved on those rentals. The store fronts the busy main access road to the city centre, and will carry the distinctive orange livery and neon lighting which is proving an effective generator of business at our other stores. The total investment in the new store will be up to £8 million.

Notwithstanding our current caution to committing to capital projects at this time, these projects are part of our strategy of continually reviewing and actively managing our operating portfolio, to ensure we are maximising its value. This includes strengthening our distinctive brand, increasing the size and number of our stores and moving or selling stores or sites when it will increase shareholder value.

Portfolio

With the opening of our new Harlow store, we currently have 21 stores open with capacity of around 1.08 million sq ft of storage space when fully fitted. 11 stores are held freehold and 10 are leasehold. With the new freehold sites at Portsmouth North Harbour, Southampton and Maidenhead total capacity rises to around 1.23 million sq ft. Of this 64% will be held freehold and 36% leasehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores. However we are happy to take leases on appropriate terms and benefit from the advantages of a lower entry cost.

Given the current property market, we are carefully monitoring land prices. Transactions are few and far between and prices may come down further. We will adapt our acquisition strategy when the market stabilises, although we still believe that acquiring land, and building and opening new stores will add to shareholder value.

Andrew Jacobs
Chief Executive Officer
6 November 2009

Financial Review

Trading

Total revenue for the year was £10.01 million (2008: £10.83 million), a decrease of 7.6%.

Total store EBITDA was £3.92 million, down 15% from last year (2008: £4.61 million) and Group EBITDA, before exceptional items, was £2.45 million (2008: £2.73 million). Operating profit for the year was £318,591, down 52% compared with £662,732 in 2008. The pre-tax loss for the year was reduced to £656,051 (2008: £741,446 loss).

There is no corporation tax liability to pay due to the availability of tax losses. Tax losses available to carry forward for offset against future profits amount to £5.23 million.

Basic and diluted loss per share was 2.39 pence per share (2008: 3.27 pence per share).

Borrowings and Cash Flow

Lok'nStore's self-storage business model is a robust one with security deposits taken from customers. Customers also pay four weekly in advance. Therefore credit control remains tight with only £45,600 of bad debts during the year representing around 0.45% of revenue (2008: 0.42%). There was £6,138 of additional costs associated with recovery (2008: £3,702).

The Group is cash generative and cash flows have increased. The business utilises cash generated from operations to fund some of the store capital expenditure rather than draw against its revolving credit facility. Net cash from operating activities before interest and capital expenditure was £1.7 million (2008: £1.4 million).

The Group also draws from its five year revolving credit facility with Royal Bank of Scotland Plc to finance new site acquisitions, construction and store fit-outs. This provides sufficient additional liquidity for the Group's immediate expansion plans. Interest is payable on the loan at a rate of 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 £11.9 million. The facility is secured on the existing property portfolio.

Interest on Bank Borrowings

The background to this financial year was unprecedented turbulence in the capital and debt markets and a deteriorating economic landscape. In the first half this has caused LIBOR rates to spike up and then to reduce significantly during the second half as base rate was cut aggressively. Interest charges on the Group's loans decreased by £553,304 from £1,608,587 in 2008 to £1,055,283 in 2009. The net interest charge decreased from £1,278,928 to £990,957, reflecting both an increase in gross borrowing of 10.4% but offset by the average cost of borrowing falling substantially during the year from 7.28% to 3.37%. £89,623 of additional interest was incurred due to the increased average borrowings which was more than offset by the £642,927 decrease from lower interest rates. The Group's average interest rate has continued to fall since the year-end which if sustained will result in a much reduced charge for next year and beyond.

The interest cost to the Group is increased by the £10.8 million of development pipeline costs that the Group is currently carrying. The interest against this cost has not been capitalised. If interest had been capitalised, the Group's adjusted profit would have been approximately £365,451 higher for the year. From 1 August 2009, in accordance with changes to International Financial Reporting Standards, we will capitalise interest against our development pipeline.

At 31 July 2009, the Group had cash balances of £3.23 million (2008 £2.48 million) and £28.1 million (2008: £25.4 million) of gross bank borrowings representing gearing of 67.2% on net debt of £24.9 million (2008: 53.8%). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the balance sheet, gearing is 59.8% (2008: 47.3%). After adjusting for the deferred tax liability carried at year-end of nearly £10.2 million gearing drops to 48% (2008: 38%). During the year the Group complied with all debt covenants.

Share Buy-back Authority

At the Company's AGM on 12 December 2008 shareholders approved renewal of the existing share buyback authority. This authority

Ancillary income up

16.9%

will be sought at the Company's Annual General Meeting again this year. The authority is restricted to a maximum of 5,845,299 Ordinary Shares, which is equivalent to 21.8% 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 Ordinary Shares in issue is 26,758,865 (2008:26,758,865).

Balance Sheet

The Group addressed the difficult economic circumstances by curtailing capital expenditure. During the year capital expenditure totalled £2.4 million down from £14.3 million in 2008. The additions of £1.0 million to land and buildings include the costs of completing Harlow, retention releases on the Portsmouth Central store and planning and other professional costs incurred in progressing the planning permissions on the Portsmouth North Harbour, Southampton and Reading sites. The additions of £1.07 million to fixtures and fittings relate principally to the fit-out at Harlow as well as the new leasehold store at Northampton Central. £0.26 million was expended on progressing the planning permissions on the Maidenhead site which is included in property lease prepayments (refer note 11b).

Balance sheet net assets at the year-end decreased to £36.9 million (2008: £42.9 million) mainly as a result of the 2009 independent property valuation which reduced total non-current assets from £80.9 million to £73.9 million. This valuation translates into an adjusted net asset value per share of £2.07 (2008: £2.44) as reported below.

The Employee Benefit Trust owns 623,212 (2008: 624,947) shares, the costs of which are shown as a deduction from shareholders' funds.

The Group holds a total of 1,142,000 of its own Ordinary Shares of 1 pence each (2008: 1,142,000) with an aggregate nominal value of £11,420 (2008: £11,420) and an average buy-in cost of 182 pence per share. These shares represent 4.27% (2008: 4.27%) of Lok'nStore Group plc's issued share capital. No shares were purchased for Treasury during this year.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2009, professional valuations were prepared by external valuers Cushman & Wakefield (C&W) in respect of 11 freehold and seven operating leasehold properties. All of these leasehold properties are classified as operating leases and not revalued in the financial statements. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards 6th Edition. 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 the bulk of Lok'nStore's properties would be acquired other than in a corporate structure in which case transaction costs would likely be lower (see note 11a 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 £67.6 million (NBV £34.8 million) (2008: £72.1 million: NBV £34.2 million). In relation to the existing store at Reading there is a prospect of redevelopment for residential use and the valuation reflects this. Accordingly, the Lok'nStore Reading site across the road which has planning permission for a store has been valued as an operating self-storage site including an additional uplift to reflect the move of customers from the existing Reading store in due course. The valuations do not account for any further investment in existing stores since 31 July 2009. The sites at Maidenhead, Portsmouth North Harbour and

Financial Review
(continued)

Analysis of Total Property Value

	No. of stores	31 July 2009 Valuation £	No. of stores	31 July 2008 Valuation £
Freehold valued by C&W	12	57,610,000	11	60,510,000
Leasehold valued by C&W	7	9,970,000	7	11,570,000
Sub total	19	67,580,000	18	72,080,000
Sites in development at cost	3	10,779,948	4	14,366,321
Total	22*	78,359,948	22*	86,446,321

* Three Leasehold stores were not valued (2008: three) as their remaining unexpired terms were insufficient to yield a value under the Cushman & Wakefield valuation methodology.

Adjusted Net Asset Value per Share

Analysis of net asset value (NAV)	31 July 2009 £	31 July 2008 £
Total non-current assets	73,867,028	80,950,612
Adjustment to include leasehold stores at valuation		
Add: C&W leasehold valuation	9,970,000	11,570,000
Deduct: leasehold properties and their fixtures and fittings at NBV	(5,357,762)	(5,939,842)
	78,479,266	86,580,770
Add: current assets	4,496,731	4,864,958
Less: current liabilities	(3,141,589)	(5,162,205)
Less: non-current liabilities (excluding deferred tax provision)	(28,001,865)	(25,311,225)
Adjusted net assets before deferred tax provision	51,832,543	60,972,298
Deferred tax	(10,248,297)	(12,431,474)
Adjusted net assets	41,584,245	48,540,824

Shares in issue	Number	Number
Opening shares	26,758,865	26,731,365
Shares issued for the exercise of options	–	27,500
Closing shares in issue	26,758,865	26,758,865
Shares held in Treasury	(1,142,000)	(1,142,000)
Shares held in EBT	(623,212)	(624,947)
Closing shares for NAV purposes	24,993,653	24,991,918
Adjusted net asset value per share after deferred tax provision	166 pence	194 pence
Adjusted net asset value per share before deferred tax provision	207 pence	244 pence

Net assets per share are net assets adjusted for the valuation of the freehold and operating leasehold stores divided by the number of shares at the year-end. The shares currently held in the Group's Employee Benefit Trust (own shares held) and in treasury are excluded from the number of shares.

Administration Expenses

	Increase/(decrease) in costs	2009 £	2008 £
Property costs	6.7%	3,416,305	3,201,190
Staff costs	(11.5%)	2,715,381	3,068,866
Overheads	(24.9%)	1,146,415	1,526,787
Total	(6.6%)	7,278,101	7,796,343

Loan to value ratio

31.7%

Southampton have not been valued and their asset value (stated at cost) of £10.8 million (2008; £14.4 million) combined with the C&W valuation provides an aggregate property value of £78.4 million. (2008: £86.4 million).

This translates into a net asset value of 166 pence per share after making full provision for deferred tax arising on the revaluations (2008: 194 pence).

The deferred tax liability arises on the revaluation of the properties and on the rolled over gain arising from the disposal of the Kingston and Woking sites. In due course the site of the existing Reading store is likely to be sold with the benefit of its permission for residential development and the proceeds will be reinvested in our new store pipeline. It is not the intention of the Directors to make any other significant disposals of operational self-storage centres. At present it is not envisaged that any tax will become payable in the foreseeable future due to the trading losses brought forward and the availability of rollover relief.

The Board will continue to commission independent valuations on its trading stores annually to coincide with its year-end reporting.

Both historically and currently we have valued our freehold and our leasehold property assets. Under IFRS, the valuations of our freehold property assets are now formally included in the Balance Sheet at their fair value, but the IFRS rules do not permit the inclusion of any valuation in respect of our leasehold stores to the extent that they are classified as operating leases. The value of our operating leases in the valuation totals £9.97 million (2008: £11.57 million). Instead we have reported by way of a note the underlying value of these leasehold stores in future revaluations and adjusted our Net Asset Value ('NAV') calculation accordingly to include their value. This will ensure comparable NAV calculations.

The seven leaseholds valued by Cushman & Wakefield are all 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 leasehold stores valued was 11.32 years at the date of the 2009 valuation (source: C&W) (2008 valuation: 12.32 years).

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 Group's operational current accounts as required.

Administration Expenses

Administration expenses are analysed into property costs, staff costs and overhead expenses.

Administration expenses amounted to £7.28 million for the year (2008: £7.80 million) a reduction of 6.6%. Premises costs accounted for 46.9% of these costs (2008: 41.0%), staff costs 37.3% (2008: 39.4%) and overheads 15.8% (2008: 19.6%).

Ray Davies
Finance Director
6 November 2009

Directors and Advisers


1.


2.


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Executive Directors

1. Andrew Jacobs (50)

Chief Executive

Andrew established Lok'nStore in February 1995 after eight years experience as a stockbroker, at Nomura International in London. He has an MPhil in Economics from Cambridge University and a BSc in Economics from the London School of Economics. Andrew is President and Vice Chairman of Trucost Plc, an environmental data company.

Andrew is responsible for strategy, corporate finance and property.

2. Simon Thomas (49)

Chairman

Simon has been a Director of Lok'nStore since 1997 after a successful career in the publishing and finance sectors. He co-founded the emerging markets investment trust business at LCF Edmond de Rothschild. He has also worked at Swiss Bank Corporation, Nomura International and Reed International. Simon is the Chief Executive of Trucost Plc, an environmental data company.

As Chairman Simon is responsible for the composition and performance of the Board.

3. Ray Davies (52)

Finance Director

Ray, a chartered accountant, has held a number of senior finance positions in the construction, and health and fitness sectors.

In 1992, he was appointed Group Finance Director and Company Secretary of Dragons Health Clubs Plc during a period of rapid and sustained growth. Following its acquisition by Crown Sports Plc in 2000, he was appointed Finance Director of Crown Sports Clubs Division and Company Secretary of Crown Sports Plc, a company listed on the Stock Exchange.

From 1984 to 1992 Ray was Group Finance Director and Company Secretary of Mark Scott Construction Group.

Ray is responsible for finance, administration and risk management.

4. Colin Jacobs (45)

Director

Prior to joining Lok'nStore Colin worked for the Courts Group of Companies in sales and marketing functions. Colin is responsible for identifying and negotiating new sites for Lok'nStore, and for business development.

Non-Executive Directors

5. Edward Luker (60)

Senior Non-Executive Director

Edward is a well known figure in the UK property industry, having worked for CB Richard Ellis for 33 years, where he has been a Director and Partner for 20 years. In 1997/8 Edward was Chairman of the Investment Property Forum, the industry body, and has acted for a number of pensions in the creation of property investment funds. Edward is a Fellow of the Royal Institute of Chartered Surveyors and is currently the discretionary portfolio manager of one of the UK's largest public sector pension funds investing in property.

Edward sits on the Remuneration Committee.

6. Robert Ward Jackson (53)

Non-Executive Director

Robert joined Lok'nStore during 2004 as a Non-Executive Director. Robert is a qualified chartered accountant with extensive experience in investment banking in London, working with Messel and Charterhouse after qualifying at Coopers & Lybrand. Since 1994, Robert has had a wide range of experience in the quoted and unquoted arenas. More recently this included his role as Chief Executive of FII Group PLC. Robert is currently Chief Executive of Special Products Limited.

Robert leads the Audit Committee.

7. Richard Holmes (49)

Non-Executive Director

Richard is currently Marketing Director of Specsavers.

Previously, Richard held a number of senior positions within the Boots organisation, including Director of Offer Development at Boots e-commerce business, Marketing Director of Boots the Chemist and Director of Health & Beauty. Richard was also Head of Strategy Development for Unilever's worldwide dental business and holds an MSc in Economics from Warwick University and a BSc in Economics from the London School of Economics.

Richard heads the Remuneration Committee.

8. Charles Peal (54)

Non-Executive Director

Charles started his career in 1977 at 3i Group, the leading UK quoted Venture Capital Company. He was the Chief Executive of Legal and General Ventures from 1988 to 2000 and was a Director of various quoted private equity investment trusts and management buyouts. He is currently a Director of Warnborough Asset Management, an independent fund management business, Chairman of BLME umbrella fund CICAV-SIF.

Charles sits on the Audit Committee.

Advisers

Secretary and Registered Office

Secretarial Solutions Limited
c/o Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

Registered in England and Wales No. 4007169

Nominated Adviser and Broker

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Statutory Auditor

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

Solicitors

Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

Registrars

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

Bankers

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

Directors' Report

The Directors submit their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2009.

Principal Activity

The principal activity of the Group during the year was that of providing 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 Review on pages 2 and 3.

A detailed Operating Review, Property Review and a Financial Review have been prepared and are set out on pages 4 to 6 and 8 and 9 and pages 10 to 13 respectively. The business objectives are set out within the Operating Review.

The key performance indicators are included within the Highlights (see page 1) and the Financial Review (see pages 10 to 13).

Financial Instruments

The financial risk management objectives and policies of the Group, along with details of exposure to liquidity and cash flow risk are set out below and in note 17 to the financial statements.

Principal Business and Operating Risks

Finance

Lok'nStore finances its current needs through a combination of strong operational cash flows and debt. It also has available the cash proceeds of the recent sale of two stores which will be reinvested in building out the existing portfolio and acquiring new sites.

The Group has a medium term £40 million facility in place to finance our committed and future development programme, secured against the property portfolio with debt serviced by our operational cash earnings. The level of bank debt in the business is monitored to ensure that the ratio of net debt to freehold property assets is not greater than 75% and interest cover not less than one times based on Group net operating EBITDA, which are our principal banking covenants. At the year-end the Group was comfortably within these covenants.

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. Further information on our Treasury arrangements are set out in note 17.

Risk Management

Risk Management is a fundamental part of how we have controlled the development of Lok'nStore since its formation. We maintain a risk register which identifies our risks into specific categories and provides an assessment of risk based on a combination of 'likelihood' and 'consequences and impact' on the business. This is reviewed regularly by the Executive Management and the Board and underpins our structured approach to identifying, assessing and controlling risks that emerge during the course of operating the business. Its purpose is to support better decision-making through understanding the risks inherent in both the day-to-day operations and the strategic direction of the Group and their likely impact. This is a continuing and evolving process as we continually review and monitor the underlying risk elements relevant to the business.

Market Risk

Self-storage is a developing market but with further opportunities for significant growth. Awareness of self-storage and how it can be used by customers is well understood in the United States, but historically has been relatively low throughout the UK. Survey and anecdotal evidence suggest this is rising quickly in the UK now. The rate of growth in branded self-storage operations in good trading locations continues to be limited by the challenge of acquiring sites at appropriate prices and obtaining planning permission.

Lok'nStore invests in prime locations where its site criteria are met and which will enable it to develop high quality stores which are prominent with high visibility and strong branding. We believe this will place us in a strong trading position and may discourage competitors from entering that local market. However it is possible that Lok'nStore may be unable to execute this strategy which will inhibit its growth. Further it is possible that an increasing number of competitors in the industry may negatively impact Lok'nStore's existing operations.

We have a large customer base spread across 22* stores including those who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Our customers are a broad mix of both domestic and business, generating around 62%:38% respectively of our revenue.

* One store is managed by Lok'nStore under a Management Services Agreement for another owner.

Property Risk

The acquisition of new sites for development into self-storage centres is a key strategic objective of the business. We will continue to face significant competition for site locations from other uses such as hotel, car showroom and offices as well as from the other self-storage operators.

The planning process remains challenging. Lok'nStore may take on the risk of getting planning permission when acquiring sites in the face of competitive bids. In these cases we undertake the planning, environmental and other property due diligence under tight timescales.

Lok'nStore's management has gained significant experience in operating in this property environment acquiring sites on main roads in prominent locations and obtaining appropriate planning permissions.

We manage the construction of our properties carefully ensuring that the build-out of each site is handled through a design and build contract with established contractors. We employ our external team of professionals to monitor the progress of each development. The fit-out of mezzanine floors and steel units is generally project managed in-house using an established external professional team of sub-contractors who move from site to site and understand Lok'nStore's specification.

Credit Risk
Our customers' pay an initial security deposit when they rent a unit and are also required to pay in advance for their four-weekly storage charges. The Group is therefore not exposed to a significant customer credit risk and this is reflected in the low level of irrecoverable debt, which is less than half of one per cent per year.

Tax Risk
We regularly monitor proposed and actual changes in legislation in the tax regime affecting principally corporation tax, capital gains tax, VAT and Stamp Duty Land Tax ('SDLT'). We work with our professional advisors and through trade bodies to understand and, if possible, mitigate or benefit from their effects.

Corporate Social Responsibility and Employee Risk
The Corporate Social Responsibility and Employee Risk within the business are discussed within the Operating Review on pages 4 to 7.

Reputational Risk
Lok'nStore's business reputation is very important to the Group. Our management and staff work hard to protect and develop it. We always try to communicate clearly with our customers, suppliers, local authorities and communities, employees and shareholders and to listen and take account of their views. The Lok'nStore websites (www.loknstore.co.uk and www.loknstore.com) are important avenues of communication and a source of information for employees, customers and investors. Employee communication is augmented by regular staff newsletters.

Dividend
In respect of the current year, the Directors propose that a final dividend of 1 pence per share will be paid to the shareholders on 18 December 2009 to shareholders on the register on 20 November 2009. The total estimated dividend to be paid is £249,946 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefit Trust and for shares held on Treasury. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

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

A Jacobs	E Luker
RA Davies	RJ Holmes
SG Thomas	RW Jackson
CM Jacobs	CP Peal

Details of the interest of the Directors in the shares of the Company are set out below and details of their remuneration are disclosed in note 6 of the financial statements.

Biographical details of the Directors are set out on page 15.

Reappointment of Directors
In accordance with the Company's Articles of Association, CM Jacobs, and E Luker retire by rotation and, both being eligible, offer themselves for re-election at the next Annual General Meeting. RW Jackson also retires by rotation and will not be seeking re-election.

The Board wish to thank Robert for his valued contribution to the business throughout nearly six years of tenure.

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

	Ordinary Shares of 1 pence each	
	31 July 2009	31 July 2008
A Jacobs	**5,314,000**	5,314,000
SG Thomas	**2,147,500**	2,187,500
RA Davies	**30,000**	30,000
RJ Holmes	**134,000**	134,000
CM Jacobs	**–**	–
RW Jackson	**–**	–
E Luker	**13,800**	13,800
C Peal	**75,000**	75,000

On 26 February 2008, Simon Thomas sold 40,000 Ordinary Shares and correspondingly the VAS Pension Fund in which Simon Thomas had a beneficial interest purchased 40,000 Ordinary Shares. The VAS Pension Fund of 500,425 Ordinary Shares was then separated into two funds: Andrew Jacobs a beneficiary of one pension fund 'The Jacobs Family Directors Pension Scheme' that holds 310,350 Ordinary Shares and Simon Thomas a beneficiary of a pension fund 'The Thomas Family Directors Pension Scheme' that holds 190,075 Ordinary Shares. Simon Thomas' overall beneficial holding has not changed. The figures set out in the table above do not include the Ordinary Shares held in these pension funds. Simon Thomas' and Andrew Jacobs' overall beneficial holdings remain unchanged.

The Aylestone Pension Fund has a holding of 20,000 (2008: 20,000) Ordinary Shares representing less than 0.1% of the issued share capital. Colin Jacobs, a Director of Lok'nStore is interested in this transaction as one of the beneficiaries of the Aylestone Pension Fund.

Details of Directors' share options are disclosed in notes 21, 22, 23 and 24.

Directors' and Officers' Liability Insurance
The Company has liability insurance covering the Directors and Officers of the Company and its subsidiaries.

Directors' Report continued

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 29 October 2009:

	Current rank	Number of shares	% at 29/10/09	Total shares in issue (excluding Treasury shares)
Andrew Jacobs	1	5,314,000	20.74	
Audley Capital	2	4,262,500	16.64	
Simon Thomas	3	2,147,500	8.38	
Montanaro Investment Managers	4	1,551,000	6.05	
Oliver Ellingham	5	1,329,941	5.19	
Charles Stanley, Stockbrokers	6	1,287,387	5.03	
		15,892,328	62.04	25,616,865

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 60 days (2008: 36 days).

Market Valuation of Freehold Land and Buildings

The changes in property, plant and equipment during the year and details of property valuations at 31 July 2009 are shown in note 11 to the Financial Statements. Further commentary on property portfolio is contained in the Property Review and in the Financial Review.

On 31 July 2009, professional valuations were prepared by external valuers, Cushman & Wakefield (C&W), in respect of 12 freehold and seven leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards, 6th Edition published by The Royal Institution of Chartered Surveyors ('the Red Book'). The valuations were prepared on the basis of Market Value or Market Value as a fully equipped operational entity, having regard to trading potential, as appropriate. These valuations in so far as they relate to freehold properties have been included in the Balance Sheet (see note 11).

Environment

Environmental Policy

Our Environmental Policy 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

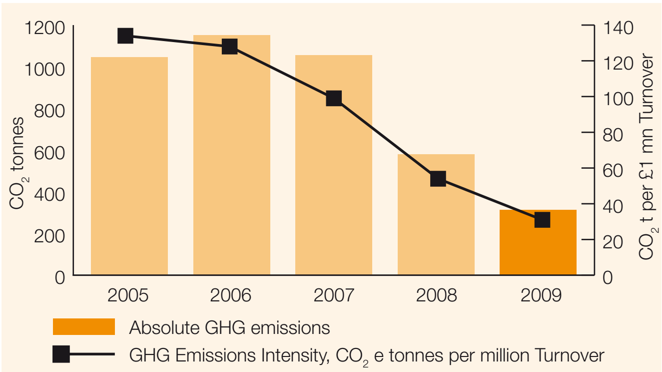
Lok'nStore has been measuring its environmental impacts for the last five consecutive years. The Group focuses on its environmental key performance indicators (KPIs), namely carbon dioxide emissions, water use and waste.

This year Lok'nStore has achieved absolute reductions in natural gas and water use in addition to increasing the amount of waste recycled and minimising the amount of waste sent to landfill. Our total absolute direct and indirect carbon dioxide emissions have decreased by 245 tonnes over the year which is a 33% reduction.

The main driver of Lok'nStore's improvement in carbon performance was reduced emissions from electricity consumption. This year all of our electricity was supplied by Green Energy plc which acquired 33% of its supply from renewable sources and the remaining 67% from combined heat and power (CHP) accredited generators.

Figure 1 shows a consistent decrease in absolute and normalised carbon dioxide emissions from electricity consumption over the last four years.

Figure 1: Carbon dioxide emissions from electricity consumption



This year we are also reporting other greenhouse gas emissions – methane (CH_4) and nitrous oxide (N_2O) – in addition to carbon dioxide emissions in line with the updated Defra guidelines for company reporting on greenhouse gas emissions.

There is a slight rise in direct emissions from vehicle fuel use in 2009 as a result of flexible staffing and intensification of store management. The increase in downstream emissions by customers for van hire follows implementation of this service across the Group in 2009.

In line with the Group's waste management strategy, we continue to monitor waste generation and to concentrate our efforts on recycling. We have reduced the number of bins for waste sent for disposal and replaced them with recycling bins. As a result we have reduced the total waste generated and increased the amount of waste recycled by 19%. We also monitor hazardous (sanitary) waste, but the amount is negligible.

Figure 2: Landfill waste

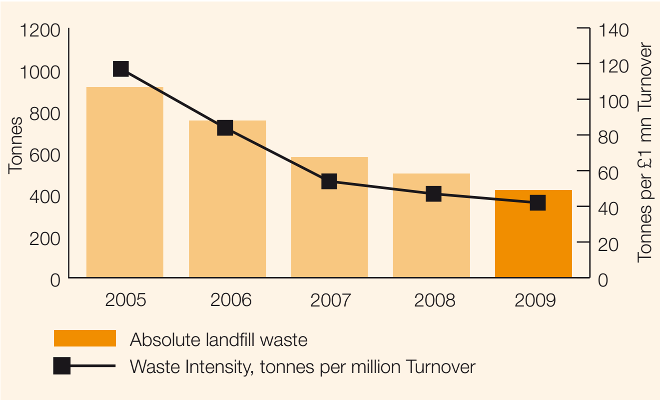
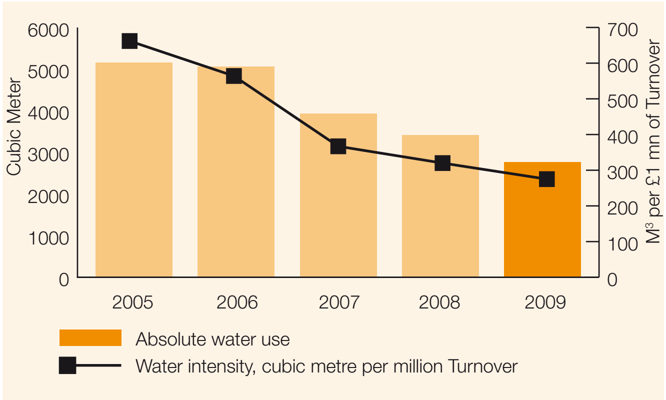


Figure 3: Water use



We have also consistently reduced our water use over the last five years. In 2009 we consumed 2,749 m^3 of water, which is 653 m^3 less than in the previous year and it amounts to a 14% reduction when normalised to turnover.

Direct Impacts (Operational)

			Quantity			
			Absolute Tonnes CO_2		Normalised* Tonnes CO_2 Per £m Turnover	
Greenhouse Gases	Definition	Data source & Calculation Methods	2008	**2009**	2008	**2009**
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	55	**44**	5	**4**
Vehicle fuel	Petrol and diesel used by staff.	Expense claims & MOT recorded mileage, converted according to Defra Guidelines.	71	**85**	7	**9**
Total			126	**129**	12	**13**
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O).	Calculated according to Defra Guidelines.	328	**362**	31	**36**

			Quantity			
			Absolute Tonnes		Normalised* Tonnes Per £m Turnover	
Waste	Definition	Data source & Calculation Methods	2008	**2009**	2008	**2009**
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 & skips removed, converted to tonnes according to Defra Guidelines.	497	**419**	47	**42**
Recycled	General office waste recycled, primarily cardboard, and fluorescent lights.	Volume of waste recycled per annum, calculated by recording the number of bins & skips removed for recycling, converted to tonnes according to Defra Guidelines.	239	**285**	23	**29**

Directors' Report continued

Indirect Impacts – Supply Chain

Greenhouse Gases	Definition	Data source & Calculation Methods	Quantity: Absolute Tonnes CO_2 2008	Quantity: Absolute Tonnes CO_2 2009	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2008	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2009
Energy use	Directly purchased electricity, which generates Greenhouse Gases including CO_2 emissions.	Yearly consumption of directly purchased electricity in kWh, converted according to supplier's fuel mix.	578	**312**	54	**31**

Water	Definition	Data source & Calculation Methods	Quantity: Absolute m^3 2008	Quantity: Absolute m^3 2009	Quantity: Normalised* Tonnes m^3 Per £m Turnover 2008	Quantity: Normalised* Tonnes m^3 Per £m Turnover 2009
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	3,402	**2,749**	320	**275**

Indirect Impacts – Downstream

Greenhouse Gases	Definition	Data source & Calculation Methods	Quantity: Absolute CO_2 2008	Quantity: Absolute CO_2 2009	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2008	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2009
Vehicle fuel	Petrol and diesel used by customers in van hire fleet.	Recorded mileage, converted according to Defra Guidelines.	48	**66**	5	**7**
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O)	Calculated according to Defra Guidelines	143	**198**	13	**20**

* Normalised based on annual revenue for the respective years

Health and Safety

The Board recognises the prime importance of maintaining high standards of health & safety and healthy working conditions for staff, customers, visitors, contractors and other people who may be affected by our business activities.

Lok'nStore Ltd has a Health and Safety Committee which meets to discuss issues relevant to Health and Safety within the Group under the overall supervision of Ray Davies who carries Board responsibility for risk management. This meeting is chaired by the Facilities Manager, with the Committee comprising of three other staff members who each hold the position for one year.

The Health and Safety policy is reviewed by the Facilities Manager on an annual basis. It is also amended to include changes to Health and Safety Law as they occur. The Health and Safety policy clearly sets out the duties and responsibilities of the Chief Executive Officer, Managers and all staff within the Group.

Share Capital

Further details are given in the Financial Review and in note 20.

Statement of Disclosure of Information to Auditors

The Directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is 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 11 December 2009 at 11.00 am at the offices of Maclay Murray Spens, One London Wall, London EC2Y 5AB.

Auditor

A resolution to reappoint Baker Tilly UK Audit LLP, Chartered Accountants, as auditor 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.

On behalf of the Board

Simon G Thomas
Chairman
6 November 2009

Corporate Governance

Introduction

The Combined Code is intended to promote the principles of openness, integrity and accountability. The Group and Board fully support these principles. 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 and applied the principles that they consider relevant to the Group.

Narrative Statement

Directors

There is a Board of Directors, which is set up to control the Group and consists of four Executive and four 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 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.

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 E Luker. 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.

Shareholder 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 customer 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 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 the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on undrawn committed facilities at 31 July 2009 of £11.9 million and cash generated from operations in the year to 31 July 2009 of £1.73 million (2008: £1.40 million). The accounts are therefore prepared on a going concern basis.

Audit Committee

The Company has an established Audit Committee, to whom the external auditor, Baker Tilly Audit UK LLP, report. The Committee consists of RW Jackson (Chairman of the Committee) and CP Peal. 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 auditor's independence each year, which includes:

- a review of non-audit services provided to the Group and related fees;
- discussion with the auditor 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 auditor's 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; and
- obtaining written confirmation from the auditor 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 auditor remains independent in the discharge of their audit responsibilities.

The Board supports the highest standards in corporate governance, appropriate to its size, and continues to consider the Combined Code on Corporate Governance (June 2006) as well as the Company's procedures to maintain proper control and accountability. 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.

On behalf of the Board

Simon G Thomas
Chairman
6 November 2009

Directors’ Responsibilities in the Preparation of Financial Statements

The Directors are responsible for preparing the Directors’ Report and the financial statements in accordance with applicable law and regulations.

UK Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union (‘EU’) and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information on the Lok’nStore Group Plc websites.

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

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

We have audited the group and parent company financial statements ("the financial statements") on pages 26 to 59. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As more fully explained in the Directors' Responsibilities Statement on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 July 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Euan Charles Banks (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP
Statutory Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

6 November 2009

Consolidated Income Statement
For the year ended 31 July 2009

	Notes	Year ended 31 July 2009 £	Year ended 31 July 2008 £
Revenue	1	**10,008,678**	10,827,064
Cost of sales	2a	**(282,664)**	(298,089)
Gross profit		**9,726,014**	10,528,975
Administrative expenses	2b	**(7,287,101)**	(7,796,343)
EBITDA*		**2,447,913**	2,732,632
Depreciation based on historic cost		**(1,571,658)**	(1,210,502)
Additional depreciation based on revalued assets		**(267,800)**	(231,692)
	5	**(1,839,458)**	(1,442,194)
Impairment of goodwill	5	**–**	(310,559)
Share-based payments	21	**(289,864)**	(317,146)
		2,129,322	(2,069,899)
Operating profit*		**318,591**	662,733
Settlement of Harlow build costs	2d	**23,637**	–
Costs of relocation of Portsmouth store	2c	**–**	(125,814)
(Loss)/profit on sale of motor vehicle		**(7,322)**	563
		16,315	(125,251)
Profit before interest		**334,906**	537,482
Finance income	3	**64,326**	329,659
Finance cost	4	**(1,055,283)**	(1,608,587)
Loss before taxation		**(656,051)**	(741,446)
Income tax credit/(expense)	7	**58,092**	(98,201)
Loss for the financial year			
Attributable to equity shareholders	26	**(597,959)**	(839,647)
Loss per share			
Basic	9	**(2.39p)**	(3.27p)
Fully diluted	9	**(2.39p)**	(3.27p)

* EBITDA and operating profit are defined in the accounting policies section of the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 July 2009

	Share capital £	Share premium £	Other reserves £	Revaluation reserve £	Retained earnings £	Total £
1 August 2007	**267,314**	**667,731**	**12,719,975**	**31,106,701**	**6,146,366**	**50,908,087**
Decrease in asset valuation	–	–	–	(7,677,505)	–	(7,677,505)
Deferred tax recognised in equity	–	–	–	2,355,296	162,880	2,518,176
Income and expense recognised directly in equity	–	–	–	(5,322,209)	162,880	(5,159,329)
Loss for the year	–	–	–	–	(839,647)	(839,647)
Total recognised income and expense	–	–	–	(5,322,209)	(676,767)	(5,998,976)
Transfer	–	–	–	(166,818)	166,818	–
Share-based remuneration	–	–	317,146	–	–	317,146
Exercise of share options	275	30,313	–	–	–	30,588
Purchase of shares for Treasury	–	–	–	–	(2,092,902)	(2,092,902)
Movement on EBT (ESOP)	–	–	–	–	3,970	3,970
Dividend paid	–	–	–	–	(257,247)	(257,247)
31 July 2008	**267,589**	**698,044**	**13,037,121**	**25,617,674**	**3,290,238**	**42,910,666**
Decrease in asset valuation	–	–	–	(7,589,590)	–	(7,589,590)
Deferred tax recognised in equity	–	–	–	2,125,085	–	2,125,085
Income and expense recognised directly in equity	–	–	–	(5,464,505)	–	(5,464,505)
Loss for the year	–	–	–	–	(597,959)	(597,959)
Total recognised income and expense	–	–	–	(5,464,505)	(597,959)	(6,062,464)
Transfer	–	–	–	394,855	394,855	–
Share-based remuneration	–	–	289,864	–	–	289,864
Movement on EBT (ESOP)	–	–	–	–	1,388	1,388
Dividend paid	–	–	(167,446)	–	–	(167,446)
31 July 2009	**267,589**	**698,044**	**13,159,539**	**19,758,314**	**3,088,522**	**36,972,008**

Company Statement of Changes in Equity

For the year ended 31 July 2009

	Retained earnings £	Share capital £	Share premium £	Other reserves £	Total £
1 August 2007	**–**	**267,314**	**667,731**	**6,424,680**	**7,359,725**
Exercise of share options	–	275	30,313	–	30,588
Profit for the year	257,247	–	–	–	257,247
Dividend paid	(257,247)	–	–	–	(257,247)
Share based remuneration (options)	–	–	–	317,146	317,146
31 July 2008	**–**	**267,589**	**698,044**	**6,741,826**	**7,707,459**
Share based remuneration (options)	–	–	–	289,864	289,864
Dividend paid	–	–	–	(167,466)	(167,466)
31 July 2009	**–**	**267,589**	**698,044**	**6,864,244**	**7,829,877**

Balance Sheets
31 July 2009
Company Registration No. 4007169

	Notes	Group 31 July 2009 £	Group 31 July 2008 £	Company 31 July 2009 £	Company 31 July 2008 £
Non-current assets					
Property, plant and equipment	11a	71,040,829	78,338,778	–	–
Property lease premiums	11b	2,826,199	2,611,834	–	–
Investments	12	–	–	1,309,046	1,019,182
Amounts due from subsidiary		–	–	6,520,831	–
		73,867,028	80,950,612	7,829,877	1,019,182
Current assets					
Inventories	13	67,104	92,712	–	–
Trade and other receivables	14	1,200,896	2,291,420	–	6,688,277
Cash and cash equivalents		3,228,731	2,480,826	–	–
		4,496,731	4,864,958	–	6,688,277
Total assets		78,363,759	85,815,570	7,829,877	7,707,459
Current liabilities					
Trade and other payables	15	(3,141,589)	(5,077,541)	–	–
Provisions	16	–	(84,664)	–	–
		(3,141,589)	(5,162,205)	–	–
Non-current liabilities					
Bank borrowings	18	(28,001,865)	(25,311,225)	–	–
Deferred tax	19	(10,248,297)	(12,431,474)	–	–
		(38,250,162)	(37,742,699)	–	–
Total liabilities		(41,391,751)	(42,904,904)	–	–
Net assets		36,972,008	42,910,666	7,829,877	7,707,459
Equity					
Called up share capital	20	267,589	267,589	267,589	267,589
Share premium		698,044	698,044	698,044	698,044
Other reserves	25	13,159,359	13,037,121	6,864,244	6,741,826
Retained earnings	26	3,088,522	3,290,238	–	–
Revaluation reserve		19,758,314	25,617,674	–	–
Total equity attributable to equity holders of the parent		36,972,008	42,910,666	7,829,877	7,707,459

Approved by the Board of Directors and authorised for issue on 6 November 2009 and signed on its behalf by:

A Jacobs
Chief Executive

R Davies
Finance Director

Cash Flow Statements
For the year ended 31 July 2009

	Notes	Group Year ended 31 July 2009 £	Group Year ended 31 July 2008 £
Operating activities			
Cash generated from operations	28	**1,729,068**	1,397,710
Income tax paid		**–**	(195)
Net cash from operating activities		**1,729,068**	1,397,515
Investing activities			
Purchase of property, plant and equipment and property lease premiums		**(2,354,541)**	(14,318,171)
Sale of property, plant and equipment		**1,755**	4,002,025
Interest received		**64,326**	329,659
Net cash used in investing activities		**(2,288,460)**	(9,986,487)
Financing activities			
Issue of new Ordinary Shares		**–**	30,588
Increase in borrowings – bank loans		**2,690,639**	9,818,619
Interest paid		**(1,215,896)**	(1,626,682)
Purchase of shares for Treasury & ESOP (net)		**–**	(2,084,614)
Equity dividends paid		**(167,446)**	(257,247)
Net cash from financing activities		**1,307,297**	5,880,664
Net increase/(decrease) in cash and cash equivalents in the year		**747,905**	(2,708,308)
Cash and cash equivalents at beginning of the year		**2,480,826**	5,189,134
Cash and cash equivalents at end of the year		**3,228,731**	2,480,826

No cash flow statement is presented for the Company as it had no cash flows in either year.

Accounting Policies

General information

Lok'nStore Group plc is an AIM listed company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The address of the registered office is One London Wall, London EC2Y 5AB, UK. Copies of this Annual Report and Accounts may be obtained from the Company's head office at 112, Hawley Lane, Farnborough, Hants. GU14 8JE, or the investor section of the Company's website at http://www.loknstore.co.uk

Significant accounting policies

Basis of accounting

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union and comply with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretation Committee relevant to its operations and effective for accounting periods beginning on or after 1 August 2008.

The financial statements have been prepared on the historic cost basis except that certain trading properties are stated at fair value. The principal accounting policies adopted are set out below.

Adoption of new and revised standards

In the current year, there have been no new Standards or Interpretations adopted by the Group which have any effect on the Group's accounting policies or disclosures.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 1	First time Adoption of IFRS – Amendment; Cost of an investment in a subsidiary, jointly-controlled entity or associate.
IFRS 1	Revised IFRS1 First-time Adoption of IFRS
IFRS 1	First-time Adoption of IFRS – Amendment; Additional Exemptions for First-time Adopters.
IFRS 2	Share-based Payments – Amendment; Vesting conditions and cancellations.
IFRS 2	Share-based Payments – Amendment; Cash-settled Share-based Payment Transactions.
IFRS 3	Business Combinations – Comprehensive revision on applying the acquisition method.
IFRS 8	Operating segments.
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income.
IAS 1	Presentation of Financial Statements – Amendment; Puttable financial instruments and obligations arising on liquidation.
IAS 23	Borrowing Costs – Comprehensive revision to prohibit immediate expensing.
IAS 27	Consolidated and Separate Financial Statements – Amendments arising from IFRS 3.
IAS 27	Consolidated and Separate Financial Statements – Amendment; Cost of an investment in a subsidiary, jointly-controlled entity or associate.
IAS 28	Investments in Associates – Consequential amendments arising from IFRS3.
IAS 31	Investments in Joint Ventures – Consequential amendments arising from IFRS3.
IAS 32	Financial Instruments: Presentation – Amendment; Puttable financial instruments and obligations arising on liquidation.
IFRS 7	Financial Instruments: Disclosures – Amendment; Improving Disclosures About Financial Instruments.
IAS 39	Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items.
IFRIC 15	Agreements for the Construction of Real Estate Assets.
IFRIC 16	Hedges of a Net Investment in a Foreign Operation.
IFRIC 17	Distribution of Non-cash Assets to Owners.
IFRIC 18	Transfers of Assets from Customers.

The Group has considered the impact of IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009). The principal change to the Standard is to eliminate the previously available option to expense all borrowing costs as incurred. The Group does not currently capitalise interest on its development properties, which will become compulsory under the Standard. The Group intends to adopt this accounting policy for the year ended 31 July 2010.

There were no other Standards or Interpretations, which were in issue but not yet effective at the date of authorisation of these financial statements, that the Directors' anticipate will have a material impact on the financial statements of the Group.

Basis of consolidation

The consolidated financial statements incorporate those of Lok'nStore Group Plc and all of its subsidiary undertakings for the year ended 31 July 2009. Subsidiaries are consolidated from the date that control passes and will continue to be consolidated until the date that such control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquirees, plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Accounting Policies continued

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discount, VAT and other sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from services provided is recognised evenly over the period in which the services are provided.

Bank borrowings and finance costs
Interest-bearing bank loans are recorded at the proceeds received net of direct issue costs. Fees payable on arrangement are accounted for on an accruals basis in the Income Statement and are amortised against the carrying value amount of the loan over the entire period of the loan.

All borrowing costs are recognised in the Income Statement in the period in which they are incurred. From 1 August 2009, in accordance with the changes to International Financial Reporting Standards, we will capitalise interest against our development pipeline. Costs incurred as part of the development of a qualifying asset will be capitalised. Capitalisation of these borrowing costs will cease when substantially all of the activities in preparing the asset for use have been completed.

EBITDA
Earnings before interest, tax, depreciation and amortisation ('EBITDA'), is defined as profits from operations but before certain costs, as separately and specifically disclosed in the income statement, and before all depreciation charges, share-based payments, impairment of goodwill, finance income and costs and taxation.

Store EBITDA
Store EBITDA is defined as earnings generated from store operations but before central and head office costs, and before certain costs, as separately and specifically disclosed in the income statement, and before all depreciation charges, share-based payments, impairment of goodwill, finance income and costs and taxation.

Operating profit
Operating profit is defined as profits from operations after share-based payments but before certain costs, as separately and specifically disclosed in the income statement, finance income and costs and taxation.

Taxation
Income tax expense represents the sum of the current tax payable and deferred tax.

Current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may not be taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in the future arising from the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences are utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also recognised directly in equity.

Retirement benefits
The amount charged to the income statement in respect of pension costs is the contributions payable to the money purchase schemes in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. There are no defined benefits schemes.

Equity share-based payments
The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options. The cost is based on the fair value of the options determined using the Black-Scholes pricing model, which is appropriate given the vesting and other conditions attaching to the options. The value of the charge may be adjusted to reflect expected and actual levels of vesting.

Advantage has been taken of the exemption available in IFRS2 – Share-based payments to exclude share options granted before 7 November 2002.

Property, plant and equipment
Freehold properties and long leasehold properties (classified as finance leases) are held in the balance sheet at fair value. A comprehensive external valuation is performed at each balance sheet date.

Short leasehold stores remain as operating leases under IFRS. Leasehold improvements together with all of their related fit-out costs are carried at cost less accumulated depreciation in the balance sheet. The value of stores held under short operating leases in the July 2009 valuation was £9.97 million (2008: £11.57 million).

Fixtures, fittings and equipment, computer equipment and motor vehicles are carried out at cost less accumulated depreciation.

Assets in the course of construction and land held for pipeline store development ('development property assets') are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is provided on all property, plant and equipment other than freehold land and development property assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows:

Freehold property	over 50 years straight line
Long leasehold property	over unexpired lease period or renewal term
Short leasehold improvements	over unexpired lease period or renewal term
Fixtures, fittings and other equipment	10% to 15% reducing balance
Computer equipment	over two years straight line
Motor vehicles	25% reducing balance

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate on an annual basis. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The additional depreciation arising from the revaluation of freehold and long leasehold properties is separately presented on the face of the income statement and transferred from the revaluation reserve to retained earnings each year.

Purchased goodwill

Goodwill represents the excess of the purchase cost over the Group's interest in the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset and reviewed for impairment at least annually.

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units, and goodwill is allocated to these units. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses in relation to goodwill are recognised immediately in the income statement and are not reversed in the subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement. Where an impairment loss subsequently reverses, the carrying amount of the assets or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

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 income statement in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to the income statement on a straight-line basis over the lease term. Payments made on entering into or acquiring a leasehold that is accounted for as an operating lease are amortised over the lease term once the property is brought into use.

Investments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based upon estimated selling prices less any costs of disposal. Provision is made for obsolete and slow moving items.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument.

Accounting Policies continued

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of interest rates. Currently the Group does not undertake any hedging activities or use any derivative financial instruments although the Board keeps hedging policy actively under review in order to maintain a balance between flexibility and the hedging of interest rate risk.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Liabilities and equity
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Interest bearing loans and overdrafts are initially measured at fair value net of direct transaction costs and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Trade payables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest rate method.

Impairment of financial assets
Financial assets are assessed for indications of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the asset have been reduced.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Cash and cash equivalents
Cash and cash equivalents comprises cash and short-term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash. The carrying amounts of these assets approximates to their fair value and the risk of changes in value is not significant.

Net debt
Net debt comprises the borrowings of the Group less cash and liquid resources.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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.

Own shares
The cost of own shares held by the Employee Benefit Trust ('ESOP shares') and Treasury shares is shown as a deduction from retained earnings. Earnings per share are calculated on the net shares in issue.

Critical accounting estimates and judgements
The preparation of consolidated financial statements under IFRS requires management to make estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual outcomes may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Estimate of fair value of trading properties
The Group values its self-storage stores using a discounted cash flow methodology which is based on projections of net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels; expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in note 11 to the accounts. The carrying value of properties held at valuation at the balance sheet date was £57.6 million (2008: £60.5 million).

Market Uncertainty
The global banking crisis and consequent reduction in the availability of debt, coupled with the economic downturn, have caused UK property values to experience sharp falls in value and liquidity since mid 2007, with fewer transactions being completed.

As a consequence, there has been a significant reduction in market evidence for Cushman & Wakefield LLP (C&W) to base their valuation on.

C&W report that in relation to the self-storage sector specifically, there were a number of transactions in 2007 but there have been no significant transactions in 2008 or the first half of 2009 other than the sale of a 51% stake in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008. Due to the absence of comparable market information C&W have therefore had to exercise more than the usual degree of judgement in arriving at their opinion of value.

In order to provide a rational opinion of value at the present time it is necessary to assume that the property market will continue to trade in an orderly fashion. In this regard C&W have assumed that the self-storage sector will continue to perform in a way not greatly different from that being anticipated prior to the 'credit crunch', however they have reflected negative sentiment in their capitalisation rates and have reflected current trading conditions in their cash flow projections for the properties.

C&W confirm that because they are having to exercise a greater degree of judgement than is usual in a more active market, there is greater uncertainty attached to their opinion of value than during more normal market conditions.

The Board concur with this view.

b) Assets in the course of construction and land held for pipeline store development. ('Development property assets')

The Group's development property assets are held in the balance sheet at historic cost and are not valued externally. In acquiring sites for redevelopment into self-storage facilities, the Group estimates and makes judgements on the potential net lettable storage space that it can achieve in its planning negotiations, together with the time it will take to achieve maturity occupancy level. In addition, assumptions are made on the storage rent that can be achieved at the store by comparing with other stores within the portfolio and within the local area. These judgements taken together with estimates of operating costs and the projected construction cost, allow the Group to calculate the potential net operating income at maturity, projected returns on capital invested and hence to support the purchase price of the site at acquisition. Following the acquisition, regular reviews are carried out taking into account the status of the planning negotiations, revised construction costs or capacity of the new facility, for example, to make an assessment of the carrying value of the development property at historic cost. The Group reviews all development property assets for impairment at each balance sheet date in the light of the results of these reviews. Once a store is opened, then it is valued as a trading store. Freehold stores are carried at valuation in the Group's balance sheet. Stores with short leasehold properties are held under operating leases and are carried at cost rather than valuation in accordance with IFRS.

The Group has been fully engaged during the course of the year with the four sites in progressing all of the painstaking and detailed work necessary to complete the pre-planning and planning phases in order to obtain appropriate planning permissions for self-storage sites. As a result of this work Lok'nStore now hold planning permissions on all of its pipeline sites. The principal movement of assets in this category was Harlow which commenced trading during the year. Once opened Harlow moved from being classified as a 'development site' into a trading store and was valued by C&W accordingly. Harlow's valuation was materially higher than its carrying cost as a 'development site'.

The carrying value of development property assets at the balance sheet date was £10.8 million (2008: £14.4 million) of which £2.83 million relating to the long lease at Maidenhead was classified as a property lease premium in the balance sheet (2008: £2.61 million).

c) Dilapidations

The Group has a number of stores operating under leasehold tenure. From time to time, in accordance with the Group's stated objective to maximise shareholder value, it may choose not to renew a lease, particularly where alternative premises have been sourced and customers can be moved into the new premises. In these circumstances the Group may incur repairing and decoration liabilities ('dilapidations') based on the tenant's obligation to the landlord to keep the leasehold premises in good repair and decorative condition. Landlords in these circumstances will normally serve a schedule of dilapidations on the tenant setting out a list of items to be remedied. This may also refer to obligations on the tenant to reinstate any alterations works previously undertaken by the tenant under a Licence for Alterations. Such claims will always be negotiated robustly by Lok'nStore and may require legal, valuation and surveyor's expertise, particularly if it can be shown that the landlord's interest in the premises has not been diminished by the dilapidations. As such, evaluations of actual liabilities are always a critical judgement and any sums provided to be set aside can only be an estimate until a settlement is concluded.

The carrying value of the provision for dilapidations at the balance sheet date was £nil (2008: £84,664).

Notes to the Financial Statements
For the year ended 31 July 2009

1 Revenue and segmental information
Revenue represents amounts derived from the provision of self-storage accommodation and related services to customers outside the Group which fall within the Group's ordinary activities after deduction of trade discounts and value added tax. The Group's net assets, revenue and loss before tax are attributable to one principal activity, the provision of self-storage accommodation and related services. These all arise in the United Kingdom.

	2009 £	2008 £
Stores trading		
Self-storage income	8,879,536	9,854,216
Other storage related income	927,498	793,343
Store rental income	5,217	5,218
Management fees	20,795	21,374
Sub-Total	9,833,046	10,674,151
Stores under development		
Non-storage income (refer note 29)	175,632	152,913
Total revenue	10,008,678	10,827,064

2a Cost of sales
Cost of sales represents the direct costs associated with the sale of retail products (boxes, packaging etc), the ancillary sales of insurance cover for customer goods and the provision of van hire services, all of which fall within the Group's ordinary activities.

	2009 £	2008 £
Retail	181,725	190,377
Insurance	31,080	66,021
Van hire	69,859	41,691
	282,664	298,089

2b Administrative expenses

	2009 £	2008 £
Property/premises costs	3,416,305	3,201,190
Staff costs	2,715,381	3,068,866
General overheads	1,146,415	1,526,287
	7,278,101	7,796,343

2c Store relocation costs

	2009 £	2008 £
Costs of relocating customers to new Portsmouth store	–	125,814

2d Settlement of Harlow build costs

	2009 £	2008 £
Credit given against developer final account	203,506	–
Less: expenses attributable to project delays	(32,587)	–
legal and dispute resolution costs	(147,282)	–
Credit given against developer net of all costs	23,637	–

3 Finance income

	2009 £	2008 £
Bank interest	61,079	185,335
Other interest	3,247	144,324
	64,326	329,659

All interest receivable arises on cash and cash equivalents (see note 17).

4 Finance costs

	2009 £	2008 £
Bank loan interest	1,055,283	1,608,587

All interest payable arises on bank loans classified as financial liabilities measured at amortised cost (see note 17).

5 Loss before taxation

	2009 £	2008 £
Loss before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
– owned assets	1,839,458	1,442,194
Impairment of goodwill	–	310,559
Operating lease rentals:		
– land and buildings	1,369,587	1,421,888
Amounts payable to Baker Tilly UK Audit LLP and their associates for audit and non-audit services		
Audit services		
– UK statutory audit of the Company and consolidated accounts	47,250	45,000
– further audit services-IFRS transition	–	20,000
Other services		
The auditing of accounts of associates of the Company pursuant to legislation		
– audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	6,250	6,250
Other services supplied pursuant to such legislation		
– interim review	22,500	35,000
Tax services		
– compliance services	25,150	11,952
– advisory services	46,131	24,395
Other services		
– work in respect of Company Share Incentive Plan (SIP)/Directors' remuneration	–	11,348
	147,281	153,945
Comprising		
Audit services	53,500	71,250
Non-audit services: Company and UK subsidiaries	93,781	82,695
	147,281	153,945

6 Employees

	2009 No.	2008 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	84	85
Administration	19	18
	103	103

	2009 £	2008 £
Costs for the above persons:		
Wages and salaries	2,159,425	2,379,808
Social security costs	206,769	228,212
Pension costs	27,245	26,539
	2,393,439	2,634,559
Share-based remuneration	289,864	317,146
	2,683,303	2,951,705

Share-based remuneration is separately disclosed in the income statement. Wages and salaries of £103,899 (2008: £110,804) have been capitalised as additions to property, plant and equipment as they are directly attributable to the acquisition of these assets. All other employee costs are included in administrative expenses in the income statement.

6 Employees continued

In relation to pension contributions, there was £3,765 (2008: £3,331) outstanding at the year-end.

Directors' Remuneration

2009	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive						
A Jacobs	190,000	–	2,557	192,557	–	192,557
SG Thomas	37,500	–	2,166	39,666	–	39,666
RA Davies	102,125	–	1,487	103,612	–	103,612
CM Jacobs	51,775	–	2,119	53,894	–	53,894
Non-Executive						
RJ Holmes	15,000	–	–	15,000	–	15,000
RW Jackson	15,000	–	–	15,000	–	15,000
E Luker*	18,750	–	–	18,750	–	18,750
CP Peal	15,000	–	–	15,000	–	15,000
	445,150	**–**	**8,329**	**453,479**	**–**	**453,479**

* Edward Luker is the Senior Independent Non-Executive Director

2008	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive						
A Jacobs	200,000	20,000	2,456	222,456	–	222,456
SG Thomas	50,000	5,000	2,033	57,033	–	57,033
RA Davies**	107,500	15,000	1,369	123,869	–	123,869
CM Jacobs***	54,500	17,500	2,074	74,074	–	74,074
Non-Executive						
RJ Holmes	20,000	–	–	20,000	–	20,000
RW Jackson	20,000	–	–	20,000	–	20,000
E Luker	25,000	–	–	25,000	–	25,000
CP Peal	20,000	–	–	20,000	–	20,000
	497,000	**57,500**	**7,932**	**562,432**	**–**	**562,432**

During the year services totalling £262,721 (2008: £289,203) were provided by Value Added Services Limited (VAS), 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 but not included in the total employee costs on the previous page. There were no performance bonuses paid to VAS during the year (2008: £25,000). See note 31 on 'Related Party Transactions' for further information.

** £7,500 of the £15,000 bonus attributed to RA Davies in 2008 was paid to Davies-Elise Consulting Limited, a company owned by RA Davies.
*** £6,000 of the £17,500 bonus attributed to CM Jacobs in 2008 was paid to Aylestone Enterprises Limited, a company in which CM Jacobs has a beneficial interest.

Pension contributions of £3,225 (2008: £3,233) were paid by the Group on behalf of RA Davies. 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.

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is one (2008: one).

7 Taxation

	2009 £	2008 £
Income Tax Expense		
Current tax:		
UK corporation tax at 28% (2008: 30%)	–	–
Adjustments in respect of prior year	–	195
Total current tax	–	195
Deferred tax:		
Origination and reversal of temporary differences	14,128	98,006
Adjustments in respect of prior year	(72,220)	–
Total deferred tax	(58,092)	98,006
Income tax (credit)/expense for the year	(58,092)	98,201

The charge for the year can be reconciled to the profit per the income statement as follows:

	2009 £	2008 £
Loss before tax	(656,051)	(741,446)
Tax on ordinary activities at the standard rate of corporation tax in the UK of 28% (2008: 30%)	(183,694)	(222,434)
Expenses not deductible for tax purposes	116,660	183,837
Share-based payment charges in excess of corresponding tax deduction	81,162	95,144
Amount not recognised in deferred tax	–	41,459
Adjustments in respect of prior periods – deferred tax	(72,220)	–
Adjustments in respect of prior periods – current tax	–	195
Income tax (credit)/expense for the year	(58,092)	98,201
Effective tax rate	9%	(13%)

A tax charge has arisen in the year due to certain expenses which are not deductible for tax purposes. Non deductible expenses consist mainly of depreciation charges on the Group's properties which do not qualify for tax allowances. No deferred tax asset arises in relation to the share-based payment charge for the year as the share price at the year-end is below the exercise price of the options as at 31 July 2009.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties amounting to £2,125,085 (2008: £2,149,702) and deferred tax of £nil (2008: £205,594) in respect of rolled over gains have been charged directly to equity (refer note 19 – deferred tax).

8 Dividends

	2009 £	2008 £
Amounts recognised as distributions to equity holders in the year:		
Final dividend for year ended 31 July 2007 (0.67 pence per share)	–	170,464
Final dividend for year ended 31 July 2008 (0.67 pence per share)	167,446	–
Interim dividend for the six months to 31 January (2008: 0.33 pence per share)	–	86,783
	167,446	257,247

In respect of the current year, the Directors propose that a final dividend of 1 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £249,946 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefit Trust and for shares held on Treasury. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 18 November 2009; the record date 20 November 2009; with an intended payment date of 18 December 2009.

9 Loss per Share

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

	2009 £	2008 £
Loss for the financial year	**(597,959)**	(839,647)

	2009 No. of shares	2008 No. of shares
Weighted average number of shares		
For basic earnings per share	**24,993,653**	25,678,141
Dilutive effect of share options	**–**	314,232
For diluted earnings per share	**24,993,653**	25,992,373

623,212 shares held in the Employee Benefit Trust and 1,142,000 Treasury shares are excluded from the above.

	2009 £	2008 £
Loss per share		
Basic	**(2.39p)**	(3.27p)
Diluted	**(2.39p)**	(3.27p)

There is no dilutive effect of the options in 2009 due to the loss arising in the year (2008: nil).

10 Intangible Assets – Goodwill

Group	Purchased goodwill 2009 £	Purchased goodwill 2008 £
Cost		
1 August and 31 July	**334,813**	334,813
Impairment		
1 August	**334,813**	24,254
Impairment charge	**–**	310,559
31 July	**334,813**	334,813
Net book value	**–**	–

11a Property, plant and equipment

Group	Land and buildings £	Short leasehold improvements at cost £	Fixtures, fittings and equipment at cost £	Motor vehicles at cost £	Total £
Cost or valuation					
1 August 2007	66,967,426	1,903,314	11,249,936	89,406	80,210,082
Additions	8,047,694	569,779	3,007,329	83,684	11,708,486
Transfers	–	(2,150)	–	–	(2,150)
Disposals	–	–	–	(5,745)	(5,745)
Revaluations	(8,058,809)	–	–	–	(8,058,809)
31 July 2008	**66,956,311**	**2,470,943**	**14,257,265**	**167,345**	**83,851,864**
Depreciation					
1 August 2007	–	769,008	3,643,170	44,301	4,456,479
Depreciation	381,304	164,683	886,691	9,516	1,442,194
Transfers	–	–	–	(4,283)	(4,283)
Revaluations	(381,304)	–	–	–	(381,304)
31 July 2008	**–**	**933,691**	**4,529,861**	**49,534**	**5,513,086**
Net book value at 31 July 2008	**66,956,311**	**1,537,252**	**9,727,404**	**117,811**	**78,338,778**
Cost or valuation					
1 August 2008	66,956,311	2,470,943	14,257,265	167,345	83,851,864
Additions	1,001,588	21,395	1,074,285	42,908	2,140,176
Disposals	–	–	–	(48,279)	(48,279)
Revaluations	(8,058,101)	–	–	–	(8,058,101)
31 July 2009	**59,899,798**	**2,492,338**	**15,331,550**	**161,974**	**77,885,660**
Depreciation					
1 August 2008	–	933,691	4,529,861	49,534	5,513,086
Depreciation	468,510	222,867	1,117,508	30,573	1,839,458
Revaluations	(468,510)	–	–	–	(468,510)
Disposals	–	–	–	(39,203)	(39,203)
31 July 2009	**–**	**1,156,558**	**5,647,369**	**40,904**	**6,844,831**
Net book value at 31 July 2009	**59,899,798**	**1,335,780**	**9,684,181**	**121,070**	**71,040,829**

The carrying value of land and buildings includes development property assets (assets in course of construction) of £8.0 million (2008: £11.8 million) held at cost and £57.6 million (2008: £60.5 million) held at valuation.

If all property, plant and equipment was stated at historic cost the carrying value would be £46.4 million (2008: £43.1 million).

The additions of £1.0 million to land and buildings include the costs of completing Harlow, retention releases on Portsmouth Central and planning and other professional costs incurred in progressing the planning permissions on the acquisition of the Portsmouth North Harbour, Southampton, and Reading sites.

The additions of £1.07 million to fixtures and fittings relate principally to the fit-out at Harlow as well as the new leasehold store at Northampton Central.

Property, plant and equipment (non-current assets) with a carrying value of £71.0 million (2008: £78.3 million) is pledged as security for bank loans (see note 18). The Maidenhead property (see note 11b) is also pledged as security for the bank loans.

Notes to the Financial Statements continued
For the year ended 31 July 2009

11a Property, plant and equipment continued
The Swindon East and Swindon West units are leasehold stores, under common management, and are held at a combined carrying cost of £299,732. The Swindon East/West stores remain under-performing relative to its peer group of stores over 250 weeks and all goodwill attaching to these stores was fully written off in 2008. Management has made an assessment of the current carrying value of its leasehold assets based on the likely cash flows generated by the stores over the next 20 years (the recoverable amount of a leasehold cash-generating unit based on a typical occupational lease term) as recorded in the Group's budgets and forecasts and based on a discount rate of 8% and an annual growth rate of 3%. Revenue and cost inflation was ignored. Accordingly it was determined that the carrying value of the Swindons' property, plant and equipment is not impaired. Management will continue to keep this matter under review.

Market Valuation of Freehold and Operating Leasehold Land and Buildings
On 31 July 2009, a professional valuation was prepared by external valuers Cushman & Wakefield LLP (C&W) in respect of 12 freehold and seven leasehold properties. All of the leasehold properties are classified as operating leases and not revalued in the financial statements. The valuation was prepared in accordance with the RICS Valuation Standards, 6th Edition, published by The Royal Institution of Chartered Surveyors ('the Red Book'). The valuations were prepared on the basis of Market Value or Market Value as a fully equipped operational entity having regard to trading potential, as appropriate. The valuation was 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 been the signatories since January 2004.
- C&W have prepared five 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 valuation for all properties valued of £67.6 million (2008: £72.1 million) of which £57.6 million (2008: £60.5 million) relates to freehold properties and £10.0 million (2008: £11.6 million) relates to properties held under operating leases.

Land and buildings are carried at valuation in the balance sheet. Short leasehold improvements at properties held under operating leases are carried at cost rather than valuation in accordance with IFRS.

The valuation methodology, explained in more detail below, is based on market value as fully equipped operational entities, having regard to trading potential. The total valuation of trading properties has therefore been allocated by the Directors between freehold properties and the fixtures, fittings and equipment in the valued properties which are held at cost. Of the £57.6 million valuation of the freehold properties £5.5 million relates to the net book value of fixtures, fittings and equipment, and the remaining £52.1 million relates to freehold properties.

The 2009 valuation includes and reflects movements in value which have resulted from the operational performance of the stores and movements in the investment environment. In relation to the existing store at Reading, although it currently remains an operating self-storage facility, the site has been valued to reflect its residential development potential following the grant of planning permission for 112 apartments with associated car parking and landscaping. Additionally the freehold development land site in Reading situated opposite the existing store, which has the benefit of an appropriate planning consent for a self-storage facility, has been valued accordingly, and reflecting an additional uplift based on the assumption that a substantial number of the existing store's customers will transfer to the new store when built. The valuations do not account for any further investment in existing stores since July 2009.

Valuation Methodology
Background
The USA has around 50,000 self-storage facilities trading in a highly fragmented market with the largest five operators accounting for less than 20% of market share based on net rentable square footage. The vast majority of stores are owned and managed individually 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.

11a Property, plant and equipment continued

The UK self-storage sector differs from the USA in that the larger multiples control almost 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 was evidence of an increased number of transactions in 2007, albeit as corporate transactions rather than individual property sales. However, there have been very few transactions in 2008 and 2009 to date.

C&W believe that the valuation methodology adopted in the USA is also 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 property

The valuation is based on a discounted cash flow of the net operating income projected over a 10-year period and a notional sale of the asset at the end of the 10th 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 subject to a cap and a collar. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.
b. The net operating income in future years is calculated assuming straight-line absorption from day one actual occupancy to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 17 trading stores (both freeholds and leaseholds) averages 75.49% (2008: 77.71%). The two Reading properties are excluded from the group of 19 stores. 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, 10-year money rates, inflation and the available evidence of transactions in the sector. On average for the 17 stores the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 5.15% (2008: 4.77%). This rises to 12.47% (2008: 10.75%) 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 12.46% (2008: 11.37%).
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 10th year in relation to the freehold stores.

The 2008 comparative figures are based on a group of 16 stores which excluded the two Reading properties and Harlow.

Leasehold property

The same methodology has been used as for freehold property, except that no sale of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 11 years and four months as at 31 July 2009 (12 years and four months as at 31 July 2008).

Market Uncertainty

C&W's valuation report comments on valuation uncertainty resulting from the recent global banking crisis and consequent reduction in the availability of debt, coupled with the economic downturn, which have caused UK property values to experience sharp falls in value and liquidity since mid 2007, with fewer transactions being completed. C&W note that although there were a number of self-storage transactions in 2007, the only significant transaction since 2007 was the sale of a 51% share in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008. C&W observe that in order to provide a rational opinion of value at the present time it is necessary to assume that the self-storage sector will continue to perform in a way not greatly different from that being anticipated prior to the 'credit crunch', however they have reflected negative sentiment in their capitalisation rates and they have reflected current trading conditions in their cash flow projections for each property. C&W state that there is therefore greater uncertainty attached to their opinion of value than would be anticipated during more normal market conditions. (Refer also to the note on critical accounting estimates and judgements in relation to fair value of trading properties on page 34).

11a Property, plant and equipment continued

Prudent lotting

C&W have assessed the value of each property individually. However, with regard to those stores with negative or low initial cash flow C&W have prepared their valuation on the assumption that were these properties to be brought to the market then they would be lotted or grouped for sale with other more mature assets of a similar type owned by the Company in such a manner as would most likely be adopted in the case of an actual sale of the interests valued. This lotting assumption has been made in order to alleviate the issue of negative or low short-term cash flow. C&W have not assumed that the entire portfolio of properties owned by the Group would be sold as a single lot and the value for the whole portfolio in the context of a sale as a single lot may differ significantly from the aggregate of the individual values for each property in the portfolio, reflecting prudent lotting as described above.

11b Property lease premiums

The carrying value of development property assets at the balance sheet date was £10.8 million (2007: £14.4 million) of which £2.83 million relating to the long lease at Maidenhead was reclassified as an other non-current asset in the balance sheet (2008: £2.61 million). This represents a lease premium paid on entering the lease and other related costs. The lease runs until 31 March 2076. A peppercorn rent is payable until 2027 and a market rent thereafter.

Group	2009 £	2008 £
Property lease premiums	**2,826,199**	2,611,834

12 Investments

Investment in subsidiary undertakings	£
Cost and net book value	
1 August 2007	**702,036**
Capital contributions arising from share-based payments	317,146
31 July 2008	**1,019,182**
1 August 2008	
Capital contributions arising from share-based payments	289,864
31 July 2009	**1,309,046**

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

	% of shares and voting rights held			
	Class of shareholding	Directly	Indirectly	Nature of business
Lok'nStore Limited	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited	Ordinary	–	100	Trustee
Southern Engineering and Machinery Company Limited	Ordinary	100	–	Land
Semco Machine Tools Limited*	Ordinary	–	100	Dormant
Semco Engineering Limited*	Ordinary	–	100	Dormant

* These companies are subsidiaries of Southern Engineering and Machinery Company Limited and did not trade during the year.

The fair value of these investments has not been disclosed because it cannot be measured reliably as there is no active market for these equity instruments. The Company currently has no plans to dispose of these investments.

13 Inventories

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Consumables and goods for resale	**67,104**	92,712	**–**	–

The amount of inventories recognised as an expense during the year was £181,725 (2008: £190,377).

14 Trade and other receivables

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Trade receivables	**684,630**	734,431	**–**	–
Other receivables	**78,073**	354,841	**–**	–
Prepayments and accrued income	**438,193**	1,202,148	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**–**	6,688,277
	1,200,896	2,291,420	**–**	6,688,277

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Trade receivables

The Group does not typically offer credit terms to its customers and hence the Group is not exposed to significant credit risk. All customers are required to pay in advance of the storage period. A late charge of 10% is applied to a customer's account if they are greater than 10 days overdue in their payment. The Group provides for receivables as a general provision based upon sales levels. There is a right of lien over the customers' goods, so if they have not paid within a certain time frame, we have the right to sell the items they store to recoup the debt owed by the customer. Trade receivables that are overdue are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

For individual storage customers, the Group does not perform credit checks, however this is mitigated by the fact that all customers are required to pay in advance, and also to pay a deposit of four weeks' storage income. Before accepting a new business customer who wishes to use a number of the Group's stores, the Group uses an external credit rating to assess the potential customer's credit quality and defines credit limits by customer. There are no customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of £62,001 (2008: £66,831) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds a right of lien over the customers' goods if these debts are not paid. The average age of these receivables is 52 days past due (2008: 51 days past due).

Ageing of past due but not impaired receivables.

	Group 2009 £	Group 2008 £
0–30 days	**15,764**	18,943
30–60 days	**3,891**	4,353
60+ days	**42,346**	43,535
Total	**62,001**	66,831

Movement in the allowance for doubtful debts.

	Group 2009 £	Group 2008 £
Balance at the beginning of the year	**72,057**	59,132
Impairment losses recognised	**45,600**	44,647
Amounts written off as uncollectable	**(25,811)**	(31,722)
Balance at the end of the year	**91,846**	72,057

14 Trade and other receivables continued

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables.

	Group 2009 £	Group 2008 £
0–30 days	–	–
30–60 days	–	–
60+ days	91,846	72,057
Total	91,846	72,057

15 Trade and other payables

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Trade payables	460,917	2,212,960	–	–
Taxation and social security costs	245,449	99,026	–	–
Other payables	932,319	879,308	–	–
Accruals and deferred income	1,502,904	1,886,247	–	–
	3,141,589	5,077,541	–	–

The Directors consider that the carrying amount of trade and other payables and accruals and deferred income approximates fair value.

16 Provisions

In 2008, following the decision of the Group not to renew its lease at its leasehold store in Portsmouth, it provided for potential repairing and decoration liabilities ('dilapidations') based on the tenant's obligation to the landlord to keep the leasehold premises in good repair and decorative condition. Such evaluations of actual liabilities and the timing of their settlement are always a critical judgement and any sums provided to be set aside can only be an estimate until a settlement is concluded. A final settlement was reached during the year.

	2009 £	2008 £
Provisions		
Liability at start of year	84,664	65,082
Amounts paid during the year	(47,404)	–
(Release)/increase in provision for the year	(37,260)	19,582
Liability at end of year	–	84,664

17 Financial instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 27. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

The Group's Board reviews the capital structure on an ongoing basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group seeks to have a conservative gearing ratio (the proportion of net debt to equity). The Board considers at each review the appropriateness of the current ratio in light of the above. The Board is currently satisfied with the Group's gearing ratio.

17 Financial instruments continued

The gearing ratio at the year-end is as follows:

	Group 2009 £	Group 2008 £
Debt	**(28,089,416)**	(25,433,797)
Cash and cash equivalents	**3,228,731**	2,480,826
Net Debt	**(24,860,685)**	(22,952,971)
Balance sheet equity	**36,972,008**	42,910,666
Net debt to equity ratio	**67.2%**	53.5%

The increase in the Group's gearing ratio arises through the combined effect of an increase in bank borrowings and a decrease in the valuation of its freehold properties. The Group facility was used to fund the completion of the new Harlow store as well as the final costs relating to the leasehold store at Northampton Central and retention releases at the Portsmouth Central store. At 31 July 2009 the Group was carrying £10.8 million of development assets at cost compared to £14.4 million at 31 July 2008.

Exposure to credit and interest rate risk arises in the normal course of the Group's business. There are no foreign currency risks.

A Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of interest rates. Currently the Group does not undertake any hedging activities or use any derivative financial instruments although the Board keeps hedging policy is respect of interest rates actively under review in order to maintain a balance between flexibility and the hedging of interest rate risk.

B Debt management

Debt is defined as non-current and current borrowings, as detailed in note 18. Equity includes all capital and reserves of the Group attributable to equity holders of the parent. The Group is not subject to externally imposed capital requirements.

The Group borrows through a senior five year term revolving credit facility, secured on its existing store portfolio with a net book value of £73.7 million. Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its store portfolio and to maintain short-term liquidity. Funding is arranged through The Royal Bank of Scotland plc, with whom the Group has a strong working relationship. As at the balance sheet date the Group has a committed revolving credit facility of £40 million (2008: £40 million). This facility expires on 5 February 2012. Undrawn committed facilities at the year-end amounted to £11,910,584 (2008: £14,566,203).

C Interest rate risk management

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 18. 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 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 £28.1 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 accounts attract no interest but surplus cash is transferred daily to 'one-day' or 'two-day' Treasury deposits which attract interest at the prevailing money market rates. All amounts are denominated in Sterling. The balances at 31 July 2009 are as follows:

	Group 2009 £	Group 2008 £
Variable rate treasury deposits*	**3,128,243**	2,342,625

* Money market rates as at 31 July 2009 attributable to variable rate deposits were 0.44% to 0.73%.

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 of the impact of movements in interest rates on gearing and interest cover.

The Group is exposed to interest rate risk as entities in the Group borrow funds at floating interest rates. Hedging policy is kept under review to align with interest rate view and defined risk appetite. The Group has no interest rate derivatives in place.

17 Financial instruments continued

D Interest rate sensitivity analysis

In managing interest rate risk the Group aims to reduce the impact of short-term fluctuations on the Group's earnings, without jeopardising its flexibility. Over the longer term, permanent changes in interest rates may have an impact on consolidated earnings.

At 31 July 2009, it is estimated that an increase of one percentage point in interest rates would have increased the Group's annual loss before tax by £312,691 (2008: £219,110) and conversely a decrease of one percentage point in interest rates would have decreased the Group's annual loss before tax by £312,691 (2008: £219,110). There would have been no effect on amounts recognised directly in equity. The sensitivity has been calculated by increasing by 1% the average variable interest rate applying to the variable rate borrowings in the year.

E Cash management and liquidity

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note B above is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Short-term money market deposits are used to manage liquidity whilst maximising the rate of return on cash resources, giving due consideration to risk.

F Foreign currency management

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

G Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in note 14. The Group has no significant concentration of credit risk, with exposure spread across 6,900 customers in our stores and no individual customer accounts for more than 1% of revenue.

The credit risk on liquid funds is limited because the counterparty is a bank with high credit ratings assigned by international credit-rating agencies, in line with the Group's policy which is to borrow from major institutional banks when arranging finance.

The Group's maximum exposure to credit risk at 31 July 2009 was £754,519 (2008: £801,580) on receivables and £3,228,731 (2008: £2,480,826) on cash and cash equivalents.

H Maturity analysis of financial liabilities

The undiscounted contractual cash flow maturities are as follows:

2009 – Group

	Trade and other payables £	Borrowings £	Interest on borrowings £
From two to five years	–	28,089,416	490,869
From one to two years	–	–	947,961
Due after more than one year	–	28,089,416	1,438,830
Due within one year	3,141,589	–	947,961
Total contractual undiscounted cash flows	3,141,589	28,089,416	2,386,791

2008 – Group

	Trade and other payables £	Borrowings £	Interest on borrowings £
From two to five years	–	25,433,797	2,810,933
From one to two years	–	–	1,851,962
Due after more than one year	–	25,433,797	4,662,895
Due within one year	5,077,541	–	1,851,962
Total contractual undiscounted cash flows	5,077,541	25,433,797	6,514,857

17 Financial instruments continued

The Group's only borrowings are through a senior five year term revolving credit facility of £40 million secured on its existing store portfolio. This facility expires on 5 February 2012.

I Fair values of financial instruments

Categories of financial assets and financial liabilities	2009 £	2008 £
Financial assets		
Trade and other receivables	**762,703**	1,089,272
Cash and cash equivalents	**3,228,731**	2,480,826
Financial liabilities		
Trade and other payables	**(3,141,589)**	(5,077,541)
Bank loans	**(28,001,865)**	(25,311,225)

The fair values of the Group's cash and short-term deposits and those of other financial assets equate to their carrying amounts. The Group's receivables are all classified as loans and receivables and carried at amortised cost. Further details are set out in note 14. The amounts are presented net of provisions for doubtful receivables and allowances for impairment are made where appropriate. Trade and other payables and bank borrowings are all classified as financial liabilities measured at amortised cost.

J Company's financial instruments

The Company's only financial assets are amounts owed by subsidiary undertakings amounting to £6.52 million (2008: £6.69 million) which are classified as loans and receivables. These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

18 Bank borrowings

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Bank loans repayable in more than two years but not more than five years				
Gross	**28,089,416**	25,433,796	**–**	–
Deferred financing costs	**(87,551)**	(122,571)	**–**	–
Bank loans repayable in more than two years but not more than five years				
Net	**28,001,865**	25,311,225	**–**	–

The bank loans are secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £79.1 million together with cross-company guarantees of Lok'nStore Limited. The revolving credit facility is for a five-year term and expires on 5 February 2012. 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.

19 Deferred tax

Deferred tax liability	2009 £	2008 £
Liability at start of year	**12,431,474**	14,851,644
Income statement (credit)/charge	**(58,092)**	98,006
Tax credited directly to equity	**(2,125,085)**	(2,518,176)
Liability at end of year	**10,248,297**	12,431,474

19 Deferred tax continued

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the year:

	Accelerated capital allowances £	Tax losses £	Other temporary differences £	Revaluation of properties £	Rolled over gain on disposal £	Total £
At 1 August 2007	1,226,697	(1,251,223)	24,526	12,098,282	2,753,362	14,851,644
Charge/(credit) to income for the year	299,096	(134,374)	(1,842)	(64,874)	–	98,006
Credit to equity for the year	–	(162,880)	–	(2,149,702)	(205,594)	(2,518,176)
At 31 July 2008	**1,525,793**	**(1,548,477)**	**22,684**	**9,883,706**	**2,547,768**	**12,431,474**
(Credit)/charge to income for the year	(64,393)	85,144	(3,859)	(74,984)	–	(58,092)
Credit to equity for the year	–	–	–	(2,125,085)	–	(2,125,085)
At 31 July 2009	**1,461,400**	**(1,463,333)**	**18,825**	**7,683,637**	**2,547,768**	**10,248,297**

At the balance sheet date, the Group has unused revenue tax losses of approximately £5.23 million (2008: £5.53 million) available to carry forward against future profits of the same trade. A deferred tax asset of £1.46 million (2008: £1.55 million) has been recognised in respect of such losses. This asset offsets against the deferred tax liability position in respect of accelerated capital allowances and other temporary differences. The losses can be carried forward indefinitely.

A potential deferred tax asset of £nil (2008: £72,000) arises in respect of the share options in existence at 31 July 2009. A deferred tax asset was not recognised in the 2008 accounts on the basis that the recoverability of the asset was not considered to be probable. No deferred tax asset arises in relation to the share-based payment charge as at 31 July 2009 as the share price at the year-end is below the exercise price of the options.

20 Share Capital

	2009 £	2008 £
Authorised:		
35,000,000 Ordinary Shares of 1 pence each (2008: 35,000,000)	**350,000**	350,000

	£	£
Allotted, issued and fully paid Ordinary Shares	**267,589**	267,589

	Number	Called up, allotted and fully paid £
Movement in issued share capital		
Number of shares at 31 July 2007	26,731,365	267,314
Exercise of share options – share option scheme	27,500	275
Number of shares at 31 July 2008 and 31 July 2009	**26,758,865**	**267,589**

The Company has one class of Ordinary Shares which carry no right to fixed income.

Following approval by shareholders of a special resolution at the AGM on 12 December 2008, the Company has authority to make market purchases of up to 5,845,299 shares. The authority expires at the conclusion of the next AGM, but is expected to be renewed at the next AGM.

21 Equity settled share-based payment plans

The Group operates two equity-settled share-based payment plans, an approved and an unapproved share option scheme, the rules of which are similar in all material respects. The Enterprise Management Initiative Scheme ('EMI') is closed to new grants of options as the Company no longer meets the HMRC small company criteria.

The Company has the following share options:

Summary	As at 31 July 2008	Granted	Exercised	Lapsed/ surrendered	**As at 31 July 2009**
Enterprise Management Initiative Scheme (refer note 22)	501,901	–	–	(10,000)	**491,901**
Approved Share Options Scheme (refer note 23)	19,458	–	–	–	**19,458**
Unapproved Share Options (refer note 24)	1,775,906	343,000	–	(32,000)	**2,086,906**
Total	2,297,265	343,000	–	(42,000)	**2,598,265**
Options held by Directors	1,270,000	220,000	–	–	**1,490,000**
Options not held by Directors	1,027,265	123,000	–	(42,000)	**1,108,265**
Total	2,297,265	343,000	–	(42,000)	**2,598,265**

Summary	As at 31 July 2007	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2008
Enterprise Management Initiative Scheme (refer note 22)	633,994	–	(27,500)	(104,593)	501,901
Approved Share Options Scheme (refer note 23)	22,377	–	–	(2,919)	19,458
Unapproved Share Options (refer note 24)	1,460,759	433,554	–	(118,407)	1,775,906
Total	2,117,130	433,554	(27,500)	(225,919)	2,297,265
Options held by Directors	1,075,000	195,000	–	–	1,270,000
Options not held by Directors	1,042,130	238,554	(27,500)	(225,919)	1,027,265
Total	2,117,130	433,554	(27,500)	(225,919)	2,297,265

The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after three years. No options have been granted under the EMI approved scheme in the year (2008: nil).

The exercise price of the options is equal to the closing mid-market price of the shares on the trading day previous to the date of the grant. The exercise of options awarded has been subject to a key non-market performance condition being the achievement of an annual revenue target of £10 million. This condition has now been achieved. Exercise of an option is subject to continued employment. The life of each option granted is seven years. There are no cash settlement alternatives.

The expected volatility is based on a historical review of share price movements over a period of time, prior to the date of grant, commensurate with the expected term of each award. The expected term is assumed to be six years which is part way between vesting (three years after grant) and lapse (10 years after grant). The risk free rate of return is the UK gilt rate at date of grant commensurate with the expected term (i.e. six years).

The total charge for the year relating to employer share-based payment schemes was £289,864 (2008: £317,146), all of which relates to equity-settled share-based payment transactions. In total a 'Share-based payments reserve' at 31 July 2009 of £1,094,483 results (2008: £804,619).

The Group has taken advantage of the exemption available under IFRS2 to exclude options granted before 7 November 2002 from the share-based payment charge so not all of the Group's options are included in the share-based payment calculations detailed below.

The total fair value of the options granted in the year was £70,291 (2008: £232,277).

22 Enterprise Management Initiative Scheme

The Company operates a share option scheme under the Enterprise Management Initiative ('EMI').

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

Since the year ended 31 July 2007, revenue has exceeded £10 million and therefore the performance criteria has been met.

Movements in the year are shown in the table below.

	Options 2009 number	*Weighted average exercise price 2009 pence	Options 2008 number	*Weighted average exercise price 2008 pence
Outstanding at 1 August	501,901	129.91	633,994	114.97
Granted during the year	–	–	–	–
Forfeited during the year	(10,000)	156.00	(104,593)	106.78
Exercised during the year	–	–	(27,500)	111.23
Expired during the year	–	–	–	–
Outstanding at 31 July	491,901	129.31	501,901	116.88
Exercisable at 31 July	491,901	129.31	392,808	103.06

* Weighted average price excludes options that were granted prior to November 2002.

The share price at the year-end was 56.5 pence per share. The share price ranged from 32.3 pence per share to 130.00 pence during the year. The exercise prices for shares exercisable at 31 July ranged from 93 pence per share to 152 pence per share.

The options outstanding at 31 July 2009 had a weighted average contractual life of 6 years (2008: six years).

The inputs into the Black-Scholes model used by our remuneration consultants, New Bridge Street Consultants, are as follows:

Date of grant	Expected life (years)	Share price at date of grant (pence)	Exercise price (pence)	Expected volatility (%)	Expected dividend yield (%)	Risk free interest rate (%)	Fair value charge per award
21 July 2003	6	66.50	93.00	26.82	0.00	4.05	14.90
27 November 2003	6	105.50	93.50	34.48	0.00	4.95	49.81
19 January 2004	6	100.00	102.00	33.82	0.00	4.60	41.05
20 January 2004	6	100.00	102.00	33.80	0.00	4.60	41.04
30 July 2004	6	113.00	113.00	32.31	0.00	5.11	47.20
29 July 2005	6	150.00	152.00	30.46	0.00	4.24	56.94
24 April 2006	6	176.50	176.50	29.53	0.00	4.62	68.21
31 July 2006	6	156.00	156.00	29.18	0.00	4.72	60.22

The following table shows options held by Directors under this scheme.

	As at 31 July 2008	Granted	Surrendered	As at 31 July 2009	Exercise price (pence)	Date from which exercisable	Expiry date
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

23 Approved Share Option Scheme

The Company issues approved share options.

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

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

Since year ended 31 July 2002, the Company's revenue has exceeded £5 million and therefore the performance criteria has been met. Movements in the year are shown in the table below.

	Options 2009 number	Weighted average exercise price 2009 pence	Options 2008 number	Weighted average exercise price 2008 pence
Outstanding at 1 August	**19,458**	**102.40**	22,377	111.35
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	(2,919)	171.00
Exercised during the year	**–**	**–**	–	–
Expired during the year	**13,621**	**75.00**	–	–
Outstanding at 31 July	**5,837**	**175.00**	19,458	102.40
Exercisable at 31 July	**5,837**	**175.00**	19,458	102.40

During the year 13,621 approved options to subscribe for Ordinary Shares at 73 pence per share with an exercise period of 08/07/02 to 08/07/09 expired.

The options outstanding at 31 July 2009 had a weighted average remaining contractual life of nil (2008: one year).

All of these options were granted before 7 November 2002 and so have not been valued. The exercise price for shares exercisable at 31 July 2009 is 175 pence per share.

None of these options are held by Directors.

24 Unapproved Share Options

The Company issues unapproved share options.

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

Since year ended 31 July 2002, the Company's revenue has exceeded £5 million, and therefore the performance criteria has been met.

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

1 The revenue 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.

Since year ended 31 July 2007, the Company's revenue has exceeded £10 million, and therefore the performance criteria has been met.

Notes to the Financial Statements continued
For the year ended 31 July 2009

24 Unapproved Share Options continued

Movements in the year are shown below:

	Options 2009 number	*Weighted average exercise price 2009 pence	Options 2008 number	*Weighted average exercise price 2008 pence
Outstanding at 1 August	1,775,906	138.90	1,460,759	153.53
Granted during the year	343,000	50.92	433,554	130.49
Forfeited during the year	(32,000)	135.69	(118,407)	165.64
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 July	2,086,906	138.95	1,775,906	152.72
Exercisable at 31 July	926,678	139.25	578,272	127.62

* Weighted average price excludes options that were granted prior to November 2002.

The options outstanding at 31 July 2009 had a weighted average remaining contractual life of eight years (2008: eight years). The exercise prices for shares exercisable at 31 July 2009 ranged from 100 pence per share to 176.5 pence per share.

The inputs into the Black-Scholes model used by our remuneration consultants, New Bridge Street Consultants, are as follows:

Date of grant	Expected life (years)	Share price at date of grant (pence)	Exercise price (pence)	Expected volatility (%)	Expected dividend yield (%)	Risk free interest rate (%)	Fair value charge per award
20 January 2004	6	100.00	102.00	33.80	0.00	4.60	41.04
30 July 2004	6	113.00	113.00	32.31	0.00	5.11	47.20
16 May 2005	6	145.00	148.00	30.95	0.00	4.32	55.48
29 July 2005	6	150.00	152.00	30.46	0.00	4.24	56.94
24 April 2006	6	176.50	176.50	29.53	0.00	4.62	68.21
31 July 2006	6	156.00	156.00	29.18	0.00	4.72	60.22
28 November 2006	6	203.50	148.00	29.32	0.00	4.75	103.85
24 April 2007	6	272.00	269.50	29.47	0.37	5.29	105.52
31 July 2007	6	213.50	213.50	29.96	0.47	5.38	82.24
01 August 2007	6	211.00	178.15	29.97	0.47	5.36	94.44
01 August 2007	6	211.00	93.00	29.97	0.47	5.36	140.00
01 August 2007	6	211.00	113.00	29.97	0.47	5.36	127.77
01 August 2007	6	211.00	152.00	29.97	0.47	5.36	106.64
31 July 2008	6	130.50	130.50	30.60	0.77	4.77	47.40
31 July 2009	6	56.50	56.50	40.21	1.77	3.14	20.49

24 Unapproved Share Options continued

The following unapproved share options have been granted to Directors of the Company.

	As at 31 July 2008	Granted £	Exercised £	As at 31 July 2009	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
A Jacobs	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
A Jacobs	50,000	–	–	**50,000**	130.5	31/07/11	31/07/18
A Jacobs	–	50,000	–	**50,000**	56.5	31/07/12	31/07/19
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
S Thomas	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
S Thomas	50,000	–	–	**50,000**	130.5	31/07/11	31/07/18
S Thomas	–	50,000	–	**50,000**	56.5	31/07/12	31/07/19
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
R Davies	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
R Davies	50,000	–	–	**50,000**	130.5	31/07/11	31/07/18
R Davies	–	50,000	–	**50,000**	56.5	31/07/12	31/07/19
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
C Jacobs	25,000	–	–	**25,000**	205	28/11/09	28/11/16
C Jacobs	25,000	–	–	**25,000**	269.5	24/04/10	24/04/17
C Jacobs	45,000	–	–	**45,000**	130.5	31/07/11	31/07/18
C Jacobs	–	25,000	–	**25,000**	56.5	31/07/12	31/07/19
E Luker	–	15,000	–	**15,000**	56.5	31/07/12	31/07/19
R Jackson	–	10,000	–	**10,000**	56.5	31/07/12	31/07/19
R Holmes	–	10,000	–	**10,000**	56.5	31/07/12	31/07/19
C Peal	–	10,000	–	**10,000**	56.5	31/07/12	31/07/19

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

25 Other reserves

Group	Merger reserve £	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
1 August 2007	**6,295,295**	**5,903,002**	**34,205**	**487,473**	**12,719,975**
Share-based remuneration (options)	–	–	–	317,146	317,146
1 August 2008	**6,295,295**	**5,903,002**	**34,205**	**804,619**	**13,037,121**
Share-based remuneration (options)	–	–	–	289,864	289,864
Dividend paid	–	(167,446)	–	–	(167,446)
31 July 2009	**6,295,295**	**5,735,556**	**34,205**	**1,094,483**	**13,159,539**

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.

The other distributable reserve and the capital redemption reserve arose in the year ended 31 July 2004 from the purchase of the Company's own shares and a cancellation of share premium.

Notes to the Financial Statements continued
For the year ended 31 July 2009

25 Other reserves continued

Company	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
1 August 2007	**5,903,002**	**34,205**	**487,473**	**6,424,680**
Share-based remuneration (options)	–	–	317,146	317,146
1 August 2008	**5,903,002**	**34,205**	**804,619**	**6,741,826**
Share-based remuneration (options)	–	–	289,864	289,684
Dividend paid	(167,446)	–	–	(167,446)
31 July 2009	**5,735,556**	**34,205**	**1,094,483**	**6,864,244**

26 Retained earnings

Group	Retained earnings before deduction of own shares £	Own shares (note 27) £	Retained earnings Total £
1 August 2007	**6,655,952**	**(509,586)**	**6,146,366**
Loss for the financial year	(839,647)	–	(839,647)
Income and expense recognised directly in equity	162,880	–	162,880
Transfer from revaluation reserve	166,818	–	166,818
Transfer to employee leavers	–	3,970	3,970
Dividends	(261,565)	4,318	(257,247)
Purchase of shares	–	(2,092,902)	(2,092,902)
1 August 2008	**5,884,438**	**(2,594,200)**	**3,290,238**
Loss for the financial year	(597,959)	–	(597,959)
Transfer from revaluation reserve	394,855	–	394,855
Transfer to employee leavers	–	1,388	1,388
31 July 2009	**5,681,334**	**(2,592,812)**	**3,088,522**

The Own Shares Reserve represents the cost of shares in Lok'nStore Group Plc purchased in the market and held in the Employee Benefit Trust to satisfy awards made under the Groups Share Incentive Plan and shares purchased separately by Lok'nStore Limited for Treasury Account. These Treasury shares have not been cancelled and were purchased at an average price considerably lower than the Group's adjusted net asset value. These shares may in due course be released back into the market to assist liquidity of the Company's stock and to provide availability of a reasonable line of stock to satisfy investor demand as and when required.

The Company has taken advantage of the exemption available under the Companies Act 2006 not to present the Company income statement. The Company profit for the year was £nil (2008: £nil).

27 Own Shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
1 August 2007	**627,500**	**509,586**	**–**	**–**	**509,586**
Transfer out of scheme	(2,553)	(3,970)	–	–	(3,970)
Purchase of shares	–	–	1,142,000	2,092,902	2,092,902
Dividends received	–	(4,318)	–	–	(4,318)
31 July 2008	**624,947**	**501,298**	**1,142,000**	**2,092,902**	**2,594,200**
Transfer out of scheme	(1,735)	(1,388)	–	–	(1,388)
31 July 2009	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**

27 Own Shares continued

Lok'nStore Limited holds a total of 1,142,000 of its own Ordinary Shares of 1p each for Treasury with an aggregate nominal value of £11,420 for an aggregate cost of £2,092,902 at an average price of £1.818 per share. These shares represent 4.27% of the Company's called-up share capital. The maximum number of shares held by the Company in the year was 1,142,000. No shares were disposed of or cancelled in the year.

Distributable reserves are reduced by £2,092,902 reflecting the purchase cost of these shares. (See note 26).

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 2009, the Trust held 623,212 (2008: 624,947) Ordinary Shares of 1 pence each with a market value of £352,115 (2008: £815,556). In accordance with the scheme rules, 1,388 shares (2008: 2,553) were transferred out of the scheme due to two employees leaving during the year.

No dividends were waived during the year. No options have been granted under the EBT.

28 Cash flows

(a) Reconciliation of loss before tax to net cash inflow from operating activities

	2009 £	2008 £
Loss before tax	(656,051)	(741,446)
Depreciation	1,839,458	1,442,194
Impairment of goodwill	–	310,559
Share-based employee remuneration	289,864	317,146
Loss/(profit) on sale of fixed assets	7,322	(563)
Interest receivable	(64,326)	(329,659)
Interest payable	1,055,283	1,608,587
Decrease/(increase) in inventories	25,607	(18,168)
Decrease/(increase) in receivables	1,095,138	(302,787)
Decrease in creditors	(1,778,563)	(888,153)
Decrease in provisions	(84,664)	–
Net cash inflow from operating activities	1,729,068	1,397,710

(b) Reconciliation of net cash flow to movement in net debt

Net debt is defined as debt on non-current and current borrowings, as detailed in note 18 less cash balances held in current accounts and surplus cash transferred daily to 'one-day' or 'two-day' Treasury deposits.

	31 July 2009 £	31 July 2008 £
Increase/(decrease) in cash in the year	747,905	(2,708,308)
Change in net debt resulting from cash flows	(2,655,619)	(9,783,599)
Movement in net debt in the year	(1,907,714)	(12,491,907)
Net debt brought forward	(22,952,971)	(10,461,064)
Net debt carried forward	(24,860,685)	(22,952,971)

Notes to the Financial Statements continued
For the year ended 31 July 2009

29 Commitments under operating leases
At 31 July 2009 the total future minimum lease payments under non-cancellable operating leases were as follows:

The Group as a lessee:
The minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Land and buildings				
Amounts due:				
Within one year	1,399,692	1,389,692	–	–
Between two and five years	5,378,768	5,338,768	–	–
After five years	5,886,795	6,981,973	–	–
	12,665,255	13,710,433	–	–

Operating lease payments represent rentals payable by the Group for certain of its properties.

Leases are negotiated for a typical term of 20 years and rentals are fixed for an average of five years.

The Group as lessor:
Property rental income earned during the year was £175,632 (2008: £152,913). This income is considered as ancillary and relatively short-term to the Group's trading activities as these properties are sites held for their development potential as self-storage centres and the rental income ceases when the buildings are demolished. These tenancies are therefore of a short-term nature since tenants are served notice to vacate pending redevelopment of the site or if very short the leases run off to the end of their term.

At the balance sheet date, the Group had contracted with tenants, under non cancellable leases, for the following future minimum lease payments:

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Within one year	91,185	86,078	–	–
Between one and five years	–	11,383	–	–
	91,185	97,461	–	–

30 Events after the balance sheet date
There are no post-balance sheet events to report.

31 Related party transactions
The following balances existed between the Company and its subsidiaries at 31 July.

	2009 £	2008 £
Net amount due from Lok'nStore Limited	6,520,831	6,688,277

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand, however the Company has no present intention to demand repayment within one year and so the amount has been presented as a non-current asset as at 31 July 2009.

The Company provides share options for the employees of Lok'nStore Limited. The capital contributions arising from these share-based payments are separately disclosed under investments in note 12.

The aggregate remuneration of the Directors, who are the key management personnel of the Group, is set out below. Further information on the remuneration of individual Directors is found in note 6 of the Notes to the Financial Statements.

	2009 £	2008 £
Short-term employee benefits	453,479	562,432
Post employment benefits	3,255	3,233
Share-based payments	138,571	99,651
Total	595,305	665,316

31 Related party transactions continued

The Group maintains a service agreement for strategic services with Value Added Services Limited, a company in which Andrew Jacobs and Simon Thomas 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 (2008: £nil). The maximum balance outstanding at any time during the year was £24,100 (ex VAT) (2008: £24,100).

The Group 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 £6,000 (2008: £5,525). The balance outstanding to Trucost PLC at year-end was £nil (2008: £nil).

The Group maintains 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 £2,000 per month (2008: £2,000 per month). There were no outstanding amounts due to h2glenfern Consulting Limited at the year-end. The maximum balance outstanding at any time during the year was £6,000 (ex VAT) (2008: £6,000 ex VAT).

During the year the Company entered into an agreement with Keith Jacobs, a brother of Andrew Jacobs and Colin Jacobs, for the provision of marketing services and support on a consultancy basis. The fees payable to Keith Jacobs during the year under this arrangement were £19,790. There was £138 outstanding due to Keith Jacobs at the year-end. The maximum balance outstanding at any time during the year is £nil (ex VAT).

32a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £49,020 (2008: £1,646,885) relating to minor works.

32b Bank borrowings

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that company had gross bank borrowings of £28.09 million (2008: £25.43 million).

32c Contingent Liability – Valued added tax

As an ancillary activity, Lok'nStore acts as an intermediary in relation to supplies of exempt insurance to customers for which it receives a commission. In November 2007, Lok'nStore originally approached HMRC, on a purely voluntary and unprompted basis, to request the implementation of a Partial Exemption Special Method (PESM). Lok'nStore, advised by Baker Tilly Tax & Accounting Limited, maintained that the standard partial exemption method, i.e. one based on the values of the various different income streams, resulted in a wholly distortive restriction of input tax. Lok'nStore remain of the view that revenue is a poor proxy for the 'use' of the majority of the input tax incurred by Lok'nStore and, as a consequence, the standard method does not provide a fair result.

Lok'nStore has advanced a number of other proposals and arguments in a bid to resolve this now long-running dispute. Again, these have been rejected. Following the formal rejection of the various proposals which were submitted for a PESM, a local review of the decision(s) was requested which upheld the rejection of a PESM.

Following an informal approach to Tax Counsel, their opinion on the chances of a successful outcome of an appeal to the Tax Tribunal was encouraging subject to the usual caveats. Lok'nStore intends to progress matters with a formal conference with Counsel.

Position at Year-End

On a worst case scenario, the overall liability in relation to input tax claimed up to the end of July 2009 which may become repayable to HMRC totals £294,975 based on the standard method restriction. Of this £187,947 relates to capital expenditure inputs (Balance Sheet) and £107,028 relates to income statement items. If a special method is agreed, this may give a restriction of around 1%, in which case the total amount of VAT (plus interest) to be assessed by HMRC would on the figures above give a special method restriction of £71,540.

On a pro rate basis this potential liability between restricted inputs gives a liability of £48,248 relating to capital expenditure inputs (Balance Sheet) and £23,291 relating to profit & loss items.

Interest would be added to both totals.

It is not impossible that there should be no restriction of input tax incurred on the basis that the de minimis limits would not be breached on any agreed PESM.

This remains an ongoing dispute with HMRC and while the outcome at present remains uncertain it is not considered that any material provision is necessary.

Notes

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