LOK'nSTORE
Business & Household Self Storage

Lok'nStore Group Plc

Annual Report & Accounts 2010

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Business & Household Self Storage

The Big Friendly Storage Company

Contents

Revenue

£10.42m

Group EBITDA

£2.93m

Adjusted Net Asset Value ('NAV') per share

£2.24

Loan to Value

28.1%

Financial Highlights

- Revenue £10.42 million up 4.1% (2009: £10.01 million)
- Group EBITDA £2.93 million up 19.9% (2009: £2.45 million)
- Operating Profit £920,232 up 196% (2009: £311,269)
- Net profit £221,124 up from £597,959 loss last year
- Adjusted NAV* £2.24 per share up 8.2% (2009: £2.07 per share)
- Final dividend proposed 0.67 pence per share (2009: 1 pence per share**)
- Cash position £5.36 million up £2.13 million (2009: £3.23 million)
- Net debt down £2.1 million to £22.7 million
- Interest charge £0.5 million down 52% (2009: £1.1 million)
- Capital Expenditure £0.55 million (2009: £2.35 million)

* Refer to page 17 for detailed calculation.
** 2009 interim dividend waived but a final dividend of 1 pence per share paid to maintain total annual dividend at 1 pence per share.

Operational Highlights

- Occupancy 583,531 sq ft up 4%
- Prices for self-storage space up 4.9%
- Ancillary income up 11.6%
- Operating Costs £7.3 million down by 0.2%
- Cost of Sales down 20.4%
- Store EBITDA £4.42 million up 12.9% (2009: £3.9 million)
- Store EBITDA margins ('same stores' over 100 weeks) up to 44.2% (2009: 42.9%)
- Overall Store EBITDA margins up to 42.6% (2009: 39.6%)

Key Measures

- Interest cover 5.9x[1]
- Loan to value ratio of 28.1%[2] (2009: 31.7%)
- FFO[3] £2.64 million = 10.6 pence per share
- Dividend cover 10.6x[4]

1 Calculation based on EBITDA/Net Finance Cost.
2 Calculation based on net debt of £22.7 million (2009: 24.9 million) and total property value as set out on page 12.
3 Funds From Operations ('FFO') calculated as EBITDA minus Net Finance Cost on operating assets
4 Calculated as FFO/dividend.

Andrew Jacobs, CEO commented:

"Lok'nStore has performed strongly this year. We have increased turnover and reduced operating costs, cost of sales and interest costs. Margins, profits and cash flow have all increased. EBITDA (Earnings before interest, tax and depreciation) has improved to a record level and we have converted a loss before tax last year into a profit before tax.

Over the year occupancy is up 4% and prices are up 4.9% demonstrating that self-storage continues to perform well even in a weak economy. This success also reflects the quality of Lok'nStore's assets and operating business.

We continue to keep a tight lid on capital expenditure so cash has increased and net debt has been reduced. Asset values have been increased, further reducing gearing and loan to value ratios.

Lok'nStore's business has proven to be resilient against a background of volatile conditions in the property and financial markets. While economic conditions appear to have stabilised we do not expect the economy to show any sustained growth in the medium-term. Nevertheless we believe the Company is well positioned to grow occupancy and pricing against tightly controlled costs, and this will provide future momentum to EBITDA. We will continue to focus on driving the cash flow from the existing portfolio and we are continually reviewing our building and acquisition strategy in light of market and economic conditions. In addition to this we are working on asset management opportunities that will provide further incremental profit growth."


LOK'n STORE
STORAGE
The Big Friendly Storage Company

Chairman's Review

Store EBITDA

£4.42 million

Strong Performance

Lok'nStore has performed strongly this year. We have increased turnover and reduced operating costs, cost of sales and interest costs and therefore margins, profits and cash flow have all increased. Capital expenditure remains tightly controlled so cash has increased and net debt has been reduced. Asset values have been increased, further reducing gearing and loan to value ratios.

Over the year occupancy is up 4% and prices achieved for self-storage units are up 4.9% to a record level demonstrating that self-storage can continue to perform well even in a weak economy and this also reflects the quality of Lok'nStore's operating business.

Store EBITDA and Group EBITDA are sharply higher and we have converted a loss before tax last year into a profit before tax. Operating costs are down 0.2%, cost of sales are down 20.4% and debt financing costs are down 52%.

During the year the Group complied comfortably with all banking covenants on our existing bank facility which runs until February 2012. We currently have £11.9 million of the facility undrawn and £5.4 million of cash (2009: £3.2 million).

Properties and Net Asset Value

In addition to the emphasis on operating efficiency, the Board continues to examine the portfolio for asset management opportunities as demonstrated by its recent agreement to extend the leases on two of the Company's stores on significantly improved terms. Our property team remains alert to the opportunities that can appear in the current volatile property market.

With the value of our properties increasing the adjusted net asset value per share has increased 8.2% from £2.07 last year to £2.24 this year (see Financial Review). Of the total increase in property values 59.8% of the movement is due to operational gain and 40.2% is due to yield shift. The value is also up 6.7% from the £2.10 per share from the management valuation in January 2010. The year-end valuation equates to a total value of properties held of £81.0 million (2009: £78.4 million).

Conditions in the Economy and Self-storage Market

During the year under review self-storage in the UK in general, and Lok'nStore in particular, has clearly demonstrated its resilience with occupancy, prices and profits growing despite an economy which is still very weak. We expect this weak economic growth to continue for the foreseeable future.

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 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. In its 2009 update Mintel reported that despite the tough economic climate, the industry had grown by around 4% over the past year in terms of available rentable space.

In the UK there are now about 800 primary facilities (not including container self-storage facilities) and around 28 million rentable square feet. Nevertheless there is still only 0.5 sq ft of rentable space for each person in the UK. This compares with the more mature US market which grew from 2.9 sq ft per head of population in 1994 to 7.4 sq ft in 2009 with over 50,000 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. The lower penetration in the UK contrasts with the difference in population density which is only 32 persons per sq km in the US against 246 persons 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.

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

Cash position

£5.36 million

There are 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 in the UK generates revenues of about £360 million per annum and has over 235,000 customers currently storing.

Dividend

In respect of the current year the Board recommends that a final dividend of 0.67 pence per share be paid on 17 December 2010 to shareholders on the register on 19 November 2010, making a full year payout of 1 pence per share. This maintains the level of the 2009 total dividend payout and demonstrates our confidence in the future of the business.

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. The interim dividend will represent approximately one third of the expected total annual dividend.

The total estimated final dividend to be paid in the current financial year is £168,125 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

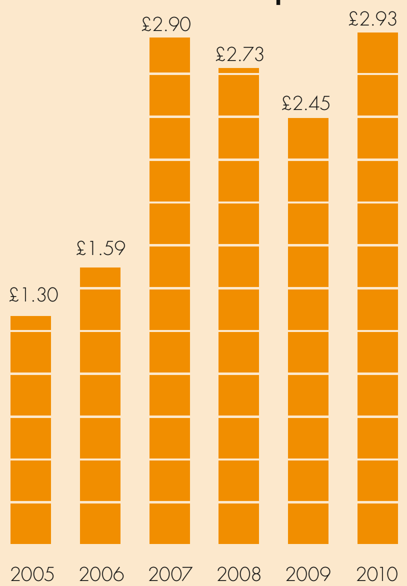
Lok'nStore's business has proven to be resilient against a background of unprecedented conditions in the property and financial markets, and continues to be steady since the year-end. Lok'nStore is well positioned to continue to grow revenue against tightly controlled costs, and this will provide momentum to EBITDA. In addition to this we are working on asset management opportunities that will provide incremental profit growth.

Our loan-to-value ratio is low at 28.1% and capital expenditure remains curtailed for the time being. We will continue to manage the business on a conservative basis, retaining the flexibility to respond quickly in line with a recovery in the wider economy. When we see sustained economic growth we plan to build out our new stores and look for new opportunities. All of our development sites now have planning permissions. Lok'nStore's efficient operating business, strong cash flow and secure asset base leaves it well positioned within the growing UK self-storage market and we are confident of the future.

Simon G Thomas
Chairman
15 October 2010

Chief Executive's Operating Review

Profit Growth (EBITDA) £million
Profits exceeded 2007 peak



Sales and Earnings Up, Costs Down

In the 12 months to 31 July 2010 we increased occupancy by 4% and prices by 4.9%.

Revenue for the year was £10.42 million up 4.1% year on year (2009: £10.01 million), and with costs firmly under control this translated into strong profit growth. Total store EBITDA, a key performance indicator of the profitability and cash flow of the operating business has increased 12.9% to £4.42 million (2009: £3.9 million). Operating profit for the year was up 196% to £920,232 (2009: £311,269). Pre-tax profit for the year was £430,524 compared with a loss of £656,051 for 2009.

Direct cost of sales expenditure (related to insurance and boxes and packaging materials) was down £57,615 from £282,664 to £225,049 an improvement of 20.4%.

Performance of Stores

During the year we increased occupancy and pricing against lower costs increasing the EBITDA margins of all stores from 39.6% to 42.6%. The EBITDA margins of the freehold stores were 56.6% and the leasehold stores achieved 25.2% (2009: 54% and 22.2% respectively). Notably the margins on the stores from 100 to 250 weeks old were 51.2%, rather higher than the stores over 250 weeks old. This is due to the fact that the more recently opened stores are larger and more weighted towards freeholds, combined with a strong sales performance. This effect is also evident in the 38.1% EBITDA margin achieved by stores less than 100 weeks old.

At the end of July 2010 36.8% of Lok'nStore's revenue was from business customers (2009: 38.1%) and 63.2% was from household customers, (2009: 61.9%). By number of customers this breakdown was 22.4% business customers (2009: 23.4 %) and 77.6% household customers (2009: 76.6%).

Pricing

Lok'nStore takes an active approach to yield management, balancing price increases with occupancy growth as we evaluate various customer offers. This has proved to be an effective strategy with occupancy still growing as pricing has been increased. 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 average price achieved for self-storage space was £18.47 per sq ft per annum at 31 July 2010 up 4.9% (2009: £17.60 per sq ft per annum). This compares with the average of £20.49 for the UK industry and £18.82 for the southern region (source Self-Storage Association Survey 2009). This positions Lok'nStore as the price competitive operator in a value conscious market, but with room to continue increasing prices as economic conditions continue to stabilise.

Management has 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 11.6% over the year (2009: 16.9%) accounting for 10.1% of storage revenues (2009: 9.5%).

We continue to heavily promote our insurance to new customers with the result that over 80% of new customers over the year took our insurance. This compares with 66.5% of our total customer base who buy our insurance, and this provides us with built-in growth in our insurance sales as the customer base rolls over.

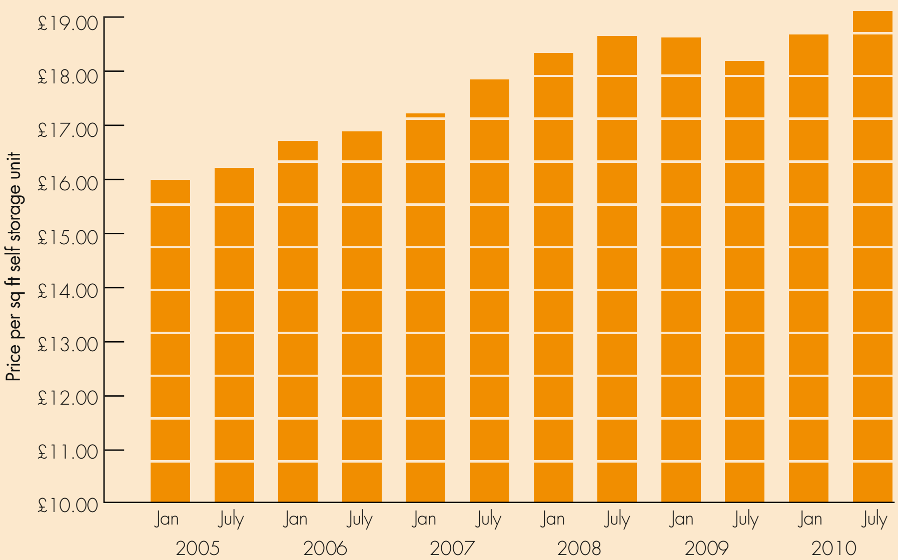
Our central sales team continue to run frequent sales training courses using the facilities in our flagship store in Farnborough. In addition, we regularly review the bonus scheme to link performance and reward directly to revenue growth and consistently high quality customer service.

Operational Performance of Stores

Store analysis Weeks old	Over 250	100 to 250	Under 100	Pipeline	Total
	July 2010				
Year ended 31 July 2010					
Revenue* (£'000)	8,481	1,510	391	–	10,382
Stores EBITDA (£'000)	**3,502**	**772**	**149**	**–**	**4,423**
EBITDA margin (%)	41.3	51.2	38.1	–	42.6
As at 31 July 2010					
Maximum Area ('000 sq ft)	846	168	69	143	1,226
Freehold and long leasehold ('000 sq ft)	439	128	69	143	779
Short leasehold ('000 sq ft)	407	40	–	–	447
Number of Stores					
Freehold and long leasehold	8	2	1	2	13
Short leasehold	9	1	–	–	10
Total stores	17	3	1	2	23

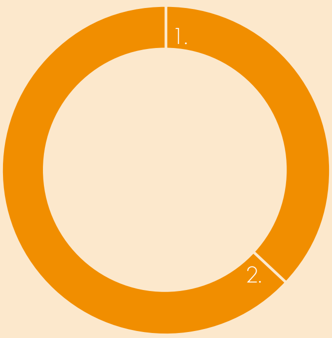
* In respect of the Farnborough store revenue includes a contribution receivable from Group Head Office in respect of the space and facilities the store provides for the Head Office function. This income to the store and the corresponding charge to Head Office is netted down in the Group revenue figures.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

Pricing 2005 – 2010 4% Compound Price Growth



Chief Executive's Operating Review *continued*

Customer split household/business



1. Business – 37%
2. Household – 63%

Marketing

During the year our marketing budget was increasingly focused on the internet with approximately 3.6% of revenue spent on advertising and marketing (including postage, printing and stationery) (2009: 4.25%). The internet produces an increasing proportion of our enquiries (31% in the year) and printed directories a decreasing proportion. We continue to allocate more of our marketing budget towards the internet with 31% of marketing spend now internet based (2009: 21%). For this year, internet enquiries were up 42% year on year and total enquiries up 12%. We will continue to manage our marketing budget with a strong focus on cost control and value for money.

Around 44% (2009: 43%) of our business comes from passing traffic, so work on the visibility of our stores is also important in our marketing effort. With prominent positions, distinctive design and orange elevations, our stores 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 our systems, analysis and reporting. Our stores and head office are connected via a web-enabled system to deliver more automated and integrated processes and this has delivered cost efficiencies particularly in areas such as petty cash and expenses handling as well as invoice processing and 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.

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.

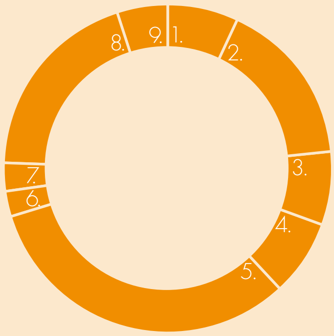
Customers

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 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 21% (2009: 22%) of our business comes from previous customers, existing customers taking more space, and customer referrals.

Suppliers

We are committed to conducting our business with suppliers in a fair and honest manner, with openness and integrity, operating in

Reason for storage



1. Building Work – 6.8%
2. House Not Ready Yet – 16.0%
3. Emigration/Temp Overseas – 6.9%
4. Find Right Property – 7.4%
5. Overflow/Declutter – 31.0%
6. Renting House – 2.4%
7. Reduction in House Size – 2.7%
8. Temporary Move – 18.8%
9. Other – 4.8%

102 employees

accordance with the terms and conditions agreed upon. We expect our suppliers to operate to these same principles.

Employees

At 31 July 2010, we had 102 employees (2009: 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 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. 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 17% of our employees have Employee Benefit Trust shares (scheme now closed) (2009: 20%) and 19% hold options (2009: 21%). 46% of the personnel are members of the contributory pension scheme (2009: 37%). Lok'nStore operates a Share Incentive Plan with 72% of employees participating in the Scheme (2009: 67%). 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 success.

Andrew Jacobs
Chief Executive Officer
15 October 2010

Property Review

% valuation freehold and long leasehold

87%

Strong Cash Flows Underpin Opportunities

Given current economic and financial uncertainty the property market remains in a volatile state. Lok'nStore's strong cash flow and tactical approach to its property portfolio provides opportunities to take advantage of these conditions. Lok'nStore has both freehold and leasehold properties, and the leasehold stores have a range of maturities of leases. Previously Lok'nStore has benefited from its freehold properties with successful projects to buy in freeholds, gain planning permissions and sell properties.

Asset management

Given current circumstances and Lok'nStore's strong covenant some landlords are keen to extend their lease terms providing them with greater future security on their income stream. Further opportunities to negotiate improved rental terms on other leases may exist.

During the year we extended the leases on two of our existing stores. The agreements to extend the two leases resulted in an immediate cash inflow of around £169,500 and additional cash savings of £113,000 spread evenly over the next eight months. The agreements also cap any future rental increases. Further, one of the agreements provides Lok'nStore with an option to extend the lease for another 10 years at maturity and this results in an increase in the average maturity of valued leases by approximately 2 years to 13 years 2 months.

In accordance with current International Accounting Standard ('IAS') rules the total benefit of £282,500 will be evenly spread in the Statement of Comprehensive Income over the next 15 years corresponding to the extended lease terms. 9 out of the 10 leasehold stores, of which 7 are valued, are inside the Landlord and Tenant Act providing us with a strong degree of security of tenure. The leasehold sites produced 26.3% of the store EBITDA in the year to July 2010.

Our property team will continue to pursue further such value creating asset management opportunities to secure our trading operations, to improve cash flow and to lock in lower or to cap property costs.

Development sites

Lok'nStore owns four development sites, two of which are for replacement stores and two for new locations. These sites all have the relevant planning permissions.

New location stores:

North Harbour, Portsmouth is a freehold site extending to almost two acres with 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.

Maidenhead is a long leasehold site of 1.6 acres 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 future store openings will largely depend on the recovery of the economy and the availability of sites. 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 conditions carefully before making further capital expenditures.

Our property team will continue to pursue value creating asset management opportunities to secure our trading operations, to improve cash flow and to lock in lower or to cap property costs

Change in Valuation Metrics

	2010 %	2009 %
Weighted exit yield in 10th year	**8.44**	8.66
Discounted rate on future cash flow	**12.2**	12.46
Average occupancy achieved at stabilisation	**72.1**	75.5
Purchasers costs	**5.75**	5.75
Purchasers and sellers costs on assumed exit (10th year)	**7.75**	7.75
Central management cost	**6**	6

Replacement 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 permission is for 112 flats on the 0.66 hectare site.

The Group also 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 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 will be sold with the benefit of its permission for residential development and the proceeds will be reinvested in the new store. The two properties in Reading were valued by Cushman & Wakefield ('C&W') at £4.84 million (NBV £2.35 million).

We also own a freehold site on Third Avenue, Millbrook, in Southampton. 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, increasing both the volume of space rented and the rates achieved on those rentals. The store 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.

These projects are part of our strategy of continually reviewing and actively managing our operating portfolio, to ensure we are maximising its value for shareholders. 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
We currently have 21 stores open with capacity of around 1.08 million sq ft of storage space when fully fitted. Eleven stores are held freehold and ten 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. By valuation 87% of the total

Property Review *continued*

Adjusted Net Asset Value ('NAV') up

8.2%

property portfolio is freehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores. However as discussed above we are happy to take leases on appropriate terms and benefit from the advantages of a lower entry cost, with further options to create value later in the store's development.

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.

Property Assets and Net Asset Value

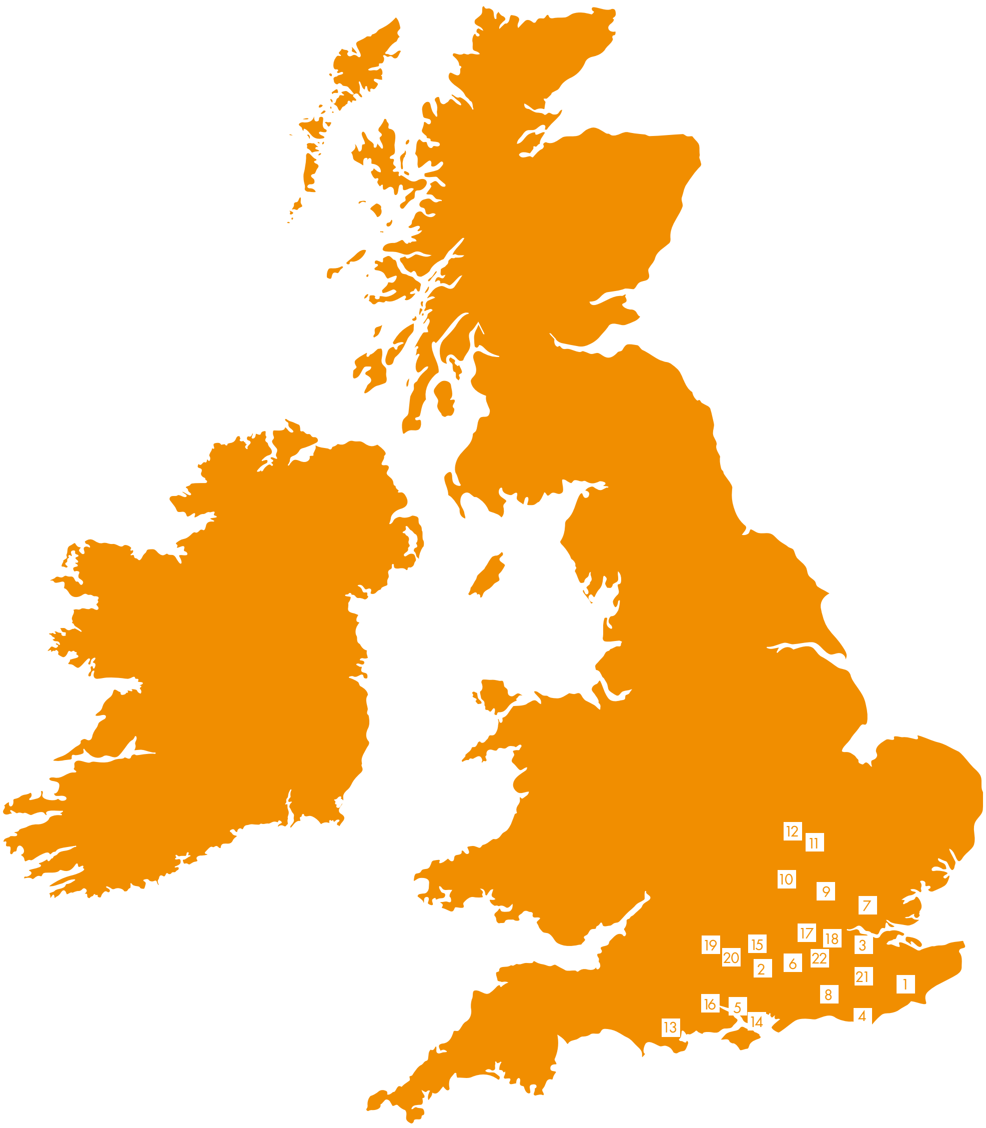
Lok'nStore's freehold and operating leasehold properties have been independently valued by C&W at £70.2 million as of 31 July 2010 (July 2009: £67.6 million) compared to a historic cost value of £33.9 million (2009: £34.8 million). This is referred to further in the Financial Review and is detailed in note 11 of the notes to the financial statements. Adding our stores under development at cost, our total property valuation of £81.0 million (historic cost value £44.7 million) (2009: £45.6 million) translates into an adjusted net asset value of £2.24 per share, an increase of 8.2% compared to last year. The value of all properties valued showed an increase of 3.9%. Excluding the two Reading stores which have a residential valuation component the increase in property valuation for other stores is 4.26% year on year. This represents a 1.71% increase in capital growth (yield decrease) and 2.55% increase from operational cash flow performance.

Andrew Jacobs
Chief Executive Officer
15 October 2010

Breakdown of property values*

	No. of stores	July 2010 Valuations	No. of stores	July 2009 Valuations
Freehold	12	59,390	12	57,610
Leasehold	7	10,800	7	9,970
Sub total	19	70,190	19	67,580
Sites in development at cost	3	10,795	3	10,780
Total	**22**	**80,985**	**22**	**78,360**

* Source: Cushman & Wakefield.



1 Ashford
2 Basingstoke
3 Crayford
4 Eastbourne
5 Fareham
6 Farnborough
7 Harlow
8 Horsham
9 Luton
10 Milton Keynes
11 Northampton Central
12 Northampton Riverside
13 Poole
14 Portsmouth
15 Reading
16 Southampton
17 Staines
18 Sunbury
19 Swindon (West)
20 Swindon Kembrey Park
21 Tonbridge
22 Woking
Trading as 'woking storage solutions' (Managed by Lok'nStore)

Financial Review

Funds from operations ('FFO')

£2.64 million

Trading

Total revenue for the year was £10.42 million (2009: £10.01 million), an increase of 4.1%. Our key measure of profitability and value driver for the business is group EBITDA which was £2.93 million up 19.9% over the previous year (2009: £2.45 million).

Total store EBITDA was £4.42 million, up 12.9% from last year (2009: £3.92 million). Operating profit for the year was £920,232, up 196% compared with £311,269 in 2009. Pre-tax profit for the year was £430,524 compared to a 2009 pre-tax loss of £656,051.

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 £4.2 million.

Basic earnings per share were 0.88 pence (2009: loss: 2.39 pence per share). Diluted earnings per share were 0.88 pence (2009: loss: 2.39 pence per share).

Cash Flow Up, Borrowing and Interest Costs Down

At 31 July 2010, the Group had cash balances of £5.36 million, up £2.13 million over the last year (2009: £3.23 million) showing the benefit of the increased turnover and reduced costs and capital expenditure. This also resulted in net debt decreasing from £24.9 million to £22.7 million.

There was £28.1 million of gross borrowings (2009: £28.1 million) representing gearing of 58.1% on net debt of £22.7 million (2009: 67.2%). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the balance sheet, gearing is 50.3% (2009: 59.8%). After adjusting for the deferred tax liability carried at year-end of £10.8 million gearing drops to 40.6% (2009: 48%).

Cash inflow from operating activities before interest and capital expenditure was £3.47 million (2009: £1.73 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility with Royal Bank of Scotland Plc. This provides sufficient liquidity for the Group's current needs. 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 (2009: £11.9 million). The facility is secured on the existing property portfolio. The loan facility runs until February 2012 and during the year the Group comfortably complied with all debt covenants.

Lok'nStore's business model is strong with customers paying four weekly in advance in addition to an initial four weeks rental deposit. We retain a legal lien over customers' goods which can then be sold to cover any unpaid bills. Credit control remains tight with only £12,758 of bad debts written off during the year representing around 0.13% of revenue (2009: 0.45%). There was £4,669 of additional costs associated with recovery (2009: £6,138). Given the tight credit conditions in the wider economy our own credit control indicators are resilient showing no signs of weakening during the year with the number of late letters declining and bad debts remaining at very low levels.

Prevailing economic conditions caused LIBOR rates to fall significantly and these remain at low levels. Lok'nStore has managed its debt aggressively and the average interest rate paid since July 2009 was 1.81% compared to 3.37% for the year to 31 July 2009. Interest on bank borrowings for the year decreased to £508,687 from £1,055,283 in 2009. The net interest charge, defined as total finance costs less total finance income, decreased from £990,957 to £489,708. This will result in a similarly low charge for our next financial year and beyond if these rates are sustained.

From 1 August 2009 under IAS 23 ('Borrowing Costs') we are required to capitalise interest against our development pipeline in accordance with changes to

Interest cover

5.9x

International Financial Reporting Standards. The Group's date of adoption was 1 August 2009, (the first annual year commencing after the IAS 23 effective date of 1 January 2009). All of the Group's current qualifying assets predate the date of adoption and accordingly under the transitional adoption arrangements no borrowing costs have been capitalised against them in the year. A component of the interest cost incurred by the Group arises from the £10.8 million of development sites that the Group is currently carrying. The interest against this cost has not been capitalised but if it was the Group's adjusted profit would have been approximately £198,307 higher for the year on the assumption that the £10.8 million is fully funded by borrowings.

By excluding the interest costs of carrying the development sites from the total net interest charge of £489,708 this means that the interest on the operating portfolio is £291,401 for the year. Funds from operations ('FFO') represented by EBITDA minus interest on the operating portfolio is therefore £2.64 million equating to 10.6 pence per share.
While the Group has grown its business through a combination of new site acquisition, existing store improvements and relocations, it has placed any further site acquisition and development on hold while the current economic conditions persist. Consequently, capital expenditure during the year totalled only £0.55 million, which relates to minor works at some stores and planning and preparatory expenditures for the development sites. The Company has no further capital commitments beyond minor works to existing properties. We will consider conditions in the wider economy and the UK self-storage market in particular before acquiring new sites or committing to any new developments.

Balance Sheet

Balance sheet net assets at the year-end increased to £39.1 million (2009 £37.0 million) as a result of the profits earned during the year, and an increase in property values. Freehold property values were up at £59.4 million compared to £57.6 million at 31 July 2009. This valuation, after also adjusting for the uplift in the valuation of leasehold properties translates into an adjusted net asset value per share of £2.24 before deferred tax provision (July 2009: £2.07) as reported above.

The Employee Benefit Trust owns 623,212 shares (2009: 623,212), the costs of which are shown as a deduction from shareholders' funds. The Company is holding in Treasury a total of 1,142,000 of its own Ordinary Shares of 1 pence each with an aggregate nominal value of £11,420 for an aggregate cost of £2,092,902. At 31 July 2010 these treasury shares represent 4.27% of the Company's issued share capital (2009: 4.27%). The total

EBITA margins freehold stores

56.6%

Financial Review *continued*

number of Ordinary Shares in issue is 26,758,865 (2009: 26,758,865).

During the year the Group responded to economic circumstances by curtailing capital expenditure which totalled £0.55 million, down from £2.4 million in 2009. The expenditure includes the costs of continued fit-out at Harlow, planning and other professional costs incurred in maximising the potential of the existing planning permissions and the refit of the reception area at the Poole store.

Share Buy-back Authority

At the Company's AGM on 11 December 2009 shareholders approved renewal of the existing share buyback authority. This authority 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.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

Our 12 freehold properties 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 46). 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 adjusted net asset value position of the Group.

On 31 July 2010, professional valuations were prepared by external valuers Cushman & Wakefield (C&W) in respect of twelve 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 11 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 £70.2 million (NBV £33.9 million) (2009: £67.6 million: NBV £34.8 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 2010. The sites at Maidenhead, Portsmouth North Harbour and Southampton have not been valued and their asset value (stated at cost) of £10.8 million (2009: £10.8 million) combined with the C&W valuation provides an aggregate property value of £81.0 million (2009: £78.4 million).

This translates into a net asset value of £1.81 per share after making full provision for deferred tax arising on the revaluations (2009: £1.66).

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 £10.8 million (2009: £9.97 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.

Adjusted Net Asset Value per Share

Analysis of net asset value (NAV)	31 July 2010 £	31 July 2009 £
Total non-current assets	**75,040,880**	73,867,028
Adjustment to include leasehold stores at valuation		
Add: C&W leasehold valuation	**10,800,000**	9,970,000
Deduct: leasehold properties and their fixtures and fittings at NBV	**(4,765,871)**	(5,357,762)
	81,075,009	78,479,266
Add: current assets	**6,624,872**	4,496,731
Less: current liabilities	**(3,674,438)**	(3,141,589)
Less: non-current liabilities (excluding deferred tax provision)	**(28,036,885)**	(28,001,865)
Adjusted net assets before deferred tax provision	**55,988,558**	51,832,543
Deferred tax	**(10,846,123)**	(10,248,297)
Adjusted net assets	**45,142,435**	41,584,246
Shares in issue	**Number**	Number
Opening shares	**26,758,865**	26,758,865
Shares issued for the exercise of options	**–**	–
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)**	(623,212)
Closing shares for NAV purposes	**24,993,653**	24,993,653
Adjusted net asset value per share after deferred tax provision	**£1.81**	£1.66
Adjusted net asset value per share before deferred tax provision	**£2.24**	£2.07

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 benefits trust (own shares held) and in treasury are excluded from the number of shares.

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 13 years 2 months at the date of the 2010 Valuation (source: C&W) (2009 valuation: 11 years 4 months).

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

Administrative expenses amounted to £7.26 million for the year (2009: £7.28 million) a decrease of 0.2%. Premises costs which are the least variable cost accounted for 47.8% of these costs (2009: 46.9%), staff costs 37.2% (2009: 37.3%) and overheads 15.0% (2009: 15.8%).

	Increase/ (decrease) in costs	2010 £	2009 £
Property costs	1.48%	**3,467,011**	3,416,305
Staff costs	(0.5%)	**2,702,965**	2,715,381
Overheads	(4.8%)	**1,090,818**	1,146,415
	(0.2%)	**7,260,794**	7,278,101

Summary

Lok'nStore has a flexible business model with relatively low credit risk, and tightly controlled operating costs. The business generates increasing cash from a strong and growing asset base, which further reduces gearing and improves loan to value ratios.

Ray Davies
Finance Director
15 October 2010

Board of Directors and Advisers

1.


2.


3.


4.


5.


6.


7.


Executive Directors

1. Andrew Jacobs (51)
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 (50)
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 (53)
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 (46)
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 (61)
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 and heads the Audit Committee.

6. Richard Holmes (50)
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.

7. Charles Peal (55)
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 and Chairman of BLME Umbrella Fund SICAV-SIF.

Charles sits on the Audit Committee.

Directors and Advisers

SG Thomas	Chairman
A Jacobs	Chief Executive
RA Davies	Finance Director
CM Jacobs	Director
E Luker	Non-Executive Director
RJ Holmes	Non-Executive Director
CP Peal	Non-Executive Director

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Registered Auditor
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Solicitors
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Registrars
Capita Registrars
Capita Group Plc
The Registry
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Beckenham
Kent BR3 4TU

Bankers
The Royal Bank of Scotland Plc
Thames Valley Corporate Business Centre
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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 2010.

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 4 and 5.

A detailed Operating Review, Property Review and a Financial Review have been prepared and are set out on pages 6 and 7, 8 and 9 and pages 10 to 17 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 14 to 17).

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. 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 is 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 63%:37% 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 page 8.

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 0.67 pence per share will be paid to the shareholders on 17 December 2010 to shareholders on the register on 19 November 2010. The total estimated dividend to be paid is £168,125 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefits 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.

Events after the Balance Sheet Date

Acquisition of Property Option

On 24 September 2010 the Group announced the acquisition of an option to acquire a site in Southend. The site extends to 1.2 acres and fronts the busy Eastern Avenue near the town centre. When developed the site will provide up to 60,000 square feet of storage space in a prominent, modern building. The project is subject to planning permission.

Directors

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

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

RW Jackson retired from the Board at the 2009 Annual General Meeting on 11 December 2009.

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 19.

Reappointment of Directors

In accordance with the Company's Articles of Association, RA Davies and CP Peal retire by rotation and each being eligible, offer themselves for re-election at the next Annual General Meeting.

Directors' Interests in Shares

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

	Ordinary Shares of 1 pence each	
	31 July 2010	31 July 2009
A Jacobs	**5,314,000**	5,314,000
SG Thomas	**2,147,500**	2,147,500
RA Davies	**30,000**	30,000
RJ Holmes	**134,000**	134,000
CM Jacobs	**–**	–
E Luker	**13,800**	13,800
CP Peal	**75,000**	75,000

Andrew Jacobs is a beneficiary of 'The Jacobs Family Directors Pension Scheme' that holds 310,350 Ordinary Shares and Simon Thomas is a beneficiary of a pension fund 'The Thomas Family Directors Pension Scheme' that holds 190,075 Ordinary Shares. 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 (2009: 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.

Directors' Report *continued*

After the year-end, the Company was notified on 17 August 2010 that Charles Peal, a Non-Executive Director of the Company had on 10 August 2010 purchased 50,000 Ordinary Shares of 1 pence each in the Company at 87 pence per share. These shares are held in Mr Peal's SIPP.

Details of Directors' share options are disclosed in notes 21, 22, 24, and 25.

Directors' and Officers' Liability Insurance

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

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 5 October 2010:

	Current rank	Number of shares	% at 05/10/10	Total shares in issue (excluding treasury shares)
Laxey Partners	1	7,437,959	29.04	
Andrew Jacobs	2	5,314,000	20.74	
Simon Thomas	3	2,147,500	8.38	
Duart Capital Management LLC	4	1,282,441	5.01	
Charles Stanley, Stockbrokers	5	1,263,872	4.93	
		17,445,772	68.10	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 65 days (2009: 60 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 2010 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 2010, professional valuations were prepared by external valuers, Cushman & Wakefield (C&W), in respect of 11 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

Our Environmental Policy is to manage our waste, control our polluting emissions and to encourage our suppliers to minimise their impact on the environment.

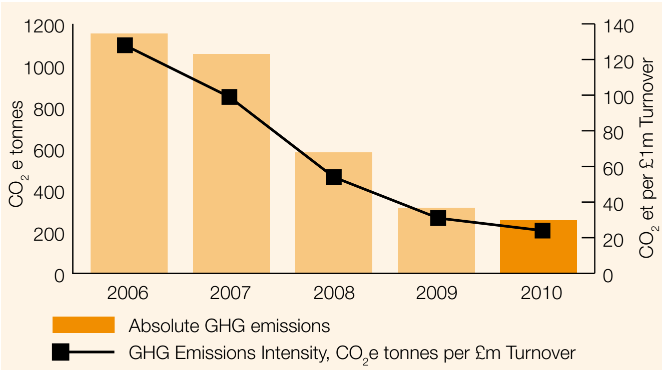
Environmental Management and Performance

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

This year the Company's total absolute direct and indirect CO_2 emissions reduced from 507 tonnes to 464 tonnes, a reduction of 9%. One of the significant drivers of Lok'nStore's carbon performance is reduced emissions from electricity consumption. This is the second year all of the Company's electricity was supplied by Green Energy plc which acquired 46% of its supply from renewable sources and the remaining 54% from combined heat and power (CHP) accredited generators.

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

Figure 1: Carbon dioxide emissions from electricity consumption



Due to the extended cold period this winter, the Company saw an increase in gas consumption, which in absolute measure returned to the 2008 level. This rise translated into the direct carbon footprint as well. Lok'nStore's direct operational greenhouse gas emissions increased by 11% over the previous financial year.

However, on a normalised basis the carbon efficiency of our operations increased only slightly to 14 tonnes of CO_2e per £1 million of turnover this year (2009: 13 tonnes of CO_2e per £1 million of turnover).

In line with the Company's waste management strategy, we continue to monitor waste generation and recycling levels.

This year Lok'nStore continued to find opportunities to reduce the quantity of waste produced. As a result the Company's total waste sent to landfill and recycled fell from 704 tonnes to 599 tonnes, a reduction in the total waste generated by 15%. The proportion of waste recycled was maintained at 40%.

We also monitor hazardous (sanitary) waste, but the amount is negligible.

In 2010 we consumed 2,920 m³ of water, which is 171 m³ more than in the previous year and it amounts to a 2% increase when normalised to turnover. As a result of routine data gathering and performance monitoring Lok'nStore identified excess water consumption at one of its stores due to mechanical failure. This has been rectified and the Company will look to reduce water consumption next year.

Figure 2: Landfill waste

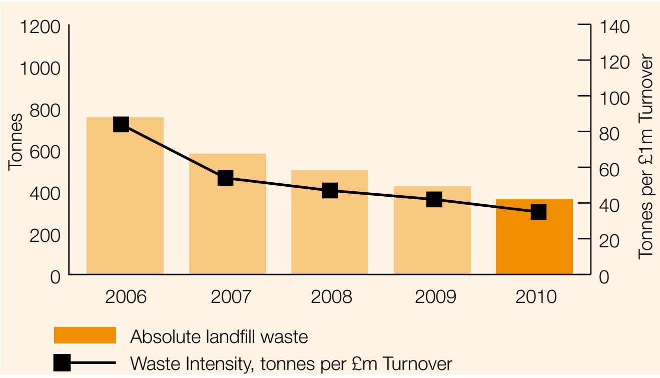
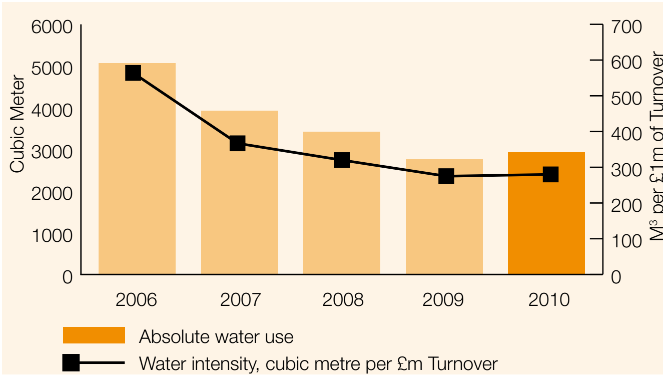


Figure 3: Water use



Direct Impacts (Operational)

			Quantity			
			Absolute Tonnes CO_2e		Normalised* Tonnes CO_2e Per £m Turnover	
Greenhouse Gases	Definition	Data Source and Calculation Methods	2009	2010	2009	2010
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	44	55	4	5
Vehicle Fuel	Petrol and diesel used by staff.	Expense claims & MOT recorded mileage, converted according to Defra Guidelines.	85	89	9	9
Total CO_2			129	144	13	14
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O).	Calculated according to Defra Guidelines.	130**	144	13	14

					Quantity	
			Absolute Tonnes		Normalised* Tonnes Per £m Turnover	
Waste	Definition	Data Source and Calculation Methods	2009	2010	2009	2010
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.	419	360	42	35
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.	285	239	29	23

Directors' Report *continued*

Indirect Impacts (Supply Chain)

Greenhouse Gases	Definition	Data Source and Calculation Methods	Absolute Tonnes CO_2e 2009	Absolute Tonnes CO_2e 2010	Quantity Normalised* Tonnes CO_2e Per £m Turnover 2009	Quantity Normalised* Tonnes CO_2e Per £m Turnover 2010
Energy Use	Directly purchased electricity, which generates Greenhouse Gases including CO_2 emissions.	Yearly consumption of directly purchased electricity in kWh collected, converted according to Defra Guidelines.	312	**252**	31	**24**

Water	Definition	Data Source and Calculation Methods	Absolute m^3 2009	Absolute m^3 2010	Quantity Normalised* m^3 Per £m Turnover 2009	Quantity Normalised* m^3 Per £m Turnover 2010
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	2,749	**2,920**	275	**280**

Indirect Impacts – Downstream

Greenhouse Gases	Definition	Data Source and Calculation Methods	Absolute Tonnes CO_2e 2009	Absolute Tonnes CO_2e 2010	Quantity Normalised* Tonnes CO_2e Per £m Turnover 2009	Quantity Normalised* Tonnes CO_2e Per £m Turnover 2010
Vehicle Fuel	Petrol and diesel used by customers in van hire fleet.	Recorded mileage, converted according to Defra Guidelines.	66	**67**	7	**6**
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O).	Calculated according to Defra Guidelines.	67**	**67**	7	**6**

Figures are rounded up

* Normalised based on annual revenue for the respective years.

Source: UK Government Environmental Key Performance Indicators: Reporting Guidelines for UK Business (2006).

** Year 2009 was the first year that the Company reported on methane and nitrous oxide emissions to form a calculation of emissions for Total Greenhouse Gases according to Defra Guidelines. An error in the calculation for 2009 has been corrected in the figures reported this year.

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 Limited 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 the Auditor

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 3 December 2010 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
15 October 2010

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 three Non-Executive Directors. The Board considers all of the Non-Executive Directors to be independent of the Group. SG Thomas is Chairman of the Board and the Board 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.

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

Accountability and Audit
The Board believes that the Annual Report and Accounts play an important part in presenting all shareholders with an assessment of the Group's position and prospects. The Chairman's Statement contains a detailed consideration of the Group's position and prospects.

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

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

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

The Group has a whistle blowing 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 cash balances of £5.4 million, and undrawn committed facilities at 31 July 2010 of £11.9 million and cash generated from operations in the year to 31 July 2010 of £3.47 million (2009: £1.73 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 E Luker (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
15 October 2010

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.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial 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 Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- 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 Group and the Company and 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 the Company 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 30 to 64. 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 Chapter 3 of Part 16 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 28, 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 2010 and of the group's profit 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 Banks (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

15 October 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2010

	Notes	Year ended 31 July 2010 £	Year ended 31 July 2009 £
Revenue	1a	**10,420,440**	10,008,678
Cost of sales	2a	**(225,049)**	(282,664)
Gross profit		**10,195,391**	9,726,014
Administrative expenses	2b	**(7,260,794)**	(7,278,101)
EBITDA*		**2,934,597**	2,447,913
Depreciation based on historic cost		**(1,574,470)**	(1,571,658)
Additional depreciation based on revalued assets		**(258,007)**	(267,800)
		(1,832,477)	(1,839,458)
Loss on sale of motor vehicle		**(452)**	(7,322)
Equity settled share-based payments	21	**(181,436)**	(289,864)
		(2,014,365)	(2,136,644)
Operating profit*		**920,232**	311,269
Settlement of Harlow build costs	2c	**–**	23,637
Profit before interest		**920,232**	334,906
Finance income	3	**18,979**	64,326
Finance cost	4	**(508,687)**	(1,055,283)
Profit/(loss) before taxation	5	**430,524**	(656,051)
Income tax (expense)/credit	7	**(209,400)**	58,092
Profit/(loss) for the financial year			
Attributable to owners of the parent	27	**221,124**	(597,959)
Other Comprehensive income			
Increase/(decrease in asset valuation)		**2,454,580**	(7,589,590)
Deferred tax relating to increase/decrease in asset valuation		**(388,426)**	2,125,085
Other comprehensive income for the year net of tax		**2,066,154**	(5,464,505)
Total comprehensive income for the year			
Attributable to owners of the parent		**2,287,278**	(6,062,464)
Earnings/(loss) per share			
Basic	9	**0.88p**	(2.39p)
Fully diluted	9	**0.88p**	(2.39p)

* 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 2010

	Share capital £	Share premium £	Other reserves £	Revaluation reserve £	Retained earnings £	Total £
1 August 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 relating to decrease in asset valuation	–	–	–	2,125,085	–	2,125,085
Other comprehensive income	–	–	–	(5,464,505)	–	(5,464,505)
Loss for the year	–	–	–	–	(597,959)	(597,959)
Total comprehensive income	–	–	–	(5,464,505)	(597,959)	(6,062,464)
Dividend paid	–	–	(167,446)	–	–	(167,446)
Total transactions with owners	–	–	(167,446)	–	–	(167,446)
Transfer	–	–	–	394,855	394,855	–
Share-based remuneration	–	–	289,864	–	–	289,864
Movement on EBT (ESOP)	–	–	–	–	1,388	1,388
31 July 2009	**267,589**	**698,044**	**13,159,539**	**19,758,314**	**3,088,522**	**36,972,008**
Increase in asset valuation	–	–	–	2,454,580	–	2,454,580
Deferred tax relating to increase in asset valuation	–	–	–	(388,426)	–	(388,426)
Other comprehensive income	–	–	–	2,066,154	–	2,066,154
Profit for the year	–	–	–	–	221,124	221,124
Total comprehensive income	–	–	–	2,066,154	221,124	2,287,728
Dividend paid	–	–	(332,416)	–	–	(332,416)
Total transactions with owners	–	–	(332,416)	–	–	(332,416)
Transfer	–	–	–	(188,346)	188,346	–
Share-based remuneration	–	–	181,436	–	–	181,436
31 July 2010	**267,589**	**698,044**	**13,008,559**	**21,636,122**	**3,497,992**	**39,108,306**

Company Statement of Changes in Equity

For the year ended 31 July 2010

	Share capital £	Retained earnings £	Share premium £	Other reserves £	Total £
1 August 2008	**267,589**	**–**	**698,044**	**6,741,826**	**7,707,459**
Dividend paid	–	–	–	(167,446)	(167,446)
Total transactions with owners	–	–	–	(167,446)	(167,446)
Share-based remuneration (options)	–	–	–	289,864	289,864
31 July 2009	**267,589**	**–**	**698,044**	**6,864,244**	**7,829,877**
Loss for the year	**–**	**(168,652)**	**–**	**–**	**(168,652)**
Dividend paid	–	–	–	(332,416)	(332,416)
Total transactions with owners	–	–	–	(332,416)	(332,416)
Share-based remuneration (options)	–	–	–	181,436	181,436
31 July 2010	**267,589**	**(168,652)**	**698,044**	**6,713,264**	**7,510,245**

Balance Sheets

31 July 2010
Company Registration No. 4007169

	Notes	Group 31 July 2010 £	Group 31 July 2009 £	Company 31 July 2010 £	Company 31 July 2009 £
Non-current assets					
Property, plant and equipment	11a	**72,180,099**	71,040,829	**–**	–
Property lease premiums	11b	**2,860,781**	2,826,199	**–**	–
Investments	12	**–**	–	**1,490,482**	1,309,046
Amounts due from subsidiary		**–**	–	**6,019,763**	6,520,831
		75,040,880	73,867,028	**7,510,245**	7,829,877
Current assets					
Inventories	13	**70,085**	67,104	**–**	–
Trade and other receivables	14	**1,190,756**	1,200,896	**–**	–
Cash and cash equivalents		**5,364,031**	3,228,731	**–**	–
		6,624,872	4,496,731	**–**	–
Total assets		**81,665,752**	78,363,759	**7,510,245**	7,829,877
Current liabilities					
Trade and other payables	15	**(3,674,438)**	(3,141,589)	**–**	–
Provisions	16	**–**	–	**–**	–
		(3,674,438)	(3,141,589)	**–**	–
Non-current liabilities					
Bank borrowings	18	**(28,036,885)**	(28,001,865)	**–**	–
Deferred tax	19	**(10,846,123)**	(10,248,297)	**–**	–
		(38,883,008)	(38,250,162)	**–**	–
Total liabilities		**(42,557,446)**	(41,391,751)	**–**	–
Net assets		**39,108,306**	36,972,008	**7,510,245**	7,829,877
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	26	**13,008,559**	13,159,539	**6,713,264**	6,864,244
Retained earnings	27	**3,497,992**	3,088,522	**(168,652)**	–
Revaluation reserve		**21,636,122**	19,758,314	**–**	–
Total equity attributable to owners of the parent		**39,108,306**	36,972,008	**7,510,245**	7,829,877

Approved by the Board of Directors and authorised for issue on 15 October 2010 and signed on its behalf by:

A Jacobs
Chief Executive

R Davies
Finance Director

Cash Flow Statements

For the year ended 31 July 2010

	Notes	Group Year ended 31 July 2010 £	Group Year ended 31 July 2009 £
Operating activities			
Cash generated from operations	29a	**3,466,294**	1,729,068
Net cash from operating activities		**3,466,294**	1,729,068
Investing activities			
Purchase of property, plant and equipment and property lease premiums		**(555,104)**	(2,354,541)
Sale of property, plant and equipment		**2,900**	1,755
Interest received		**18,979**	64,326
Net cash used in investing activities		**(533,225)**	(2,288,460)
Financing activities			
Increase in borrowings – bank loans		**–**	2,690,639
Interest paid		**(465,353)**	(1,215,896)
Equity dividends paid		**(332,416)**	(167,446)
Net cash from financing activities		**(797,769)**	1,307,297
Net increase in cash and cash equivalents in the year		**2,135,300**	747,905
Cash and cash equivalents at beginning of the year		**3,228,731**	2,480,826
Cash and cash equivalents at end of the year		**5,364,031**	3,228,731

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

Accounting Policies

General Information

Lok'nStore 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') Interpretations 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 2009.

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

Standards Effective for the Current Year

Presentation: IAS 1 Presentation of Financial Statements (revised). This revision requires some amendments to the structure and presentation of the primary statements.

IAS 23 (Revised): 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 did not previously capitalise interest on its development properties, which has become compulsory under the Standard for new development properties. The Group has adopted this accounting policy for the year ended 31 July 2010.

The adoption of the following standards and amendments has not had any significant impact on the financial statements of the Group:

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 3	Business Combinations – Comprehensive revision on applying the acquisition method.
IFRS 8	Operating segments. This did not affect the Group's current disclosure as the requirements were already met.
IAS 1	Presentation of Financial Statements – Amendment; Puttable financial instruments and obligations arising on liquidation.
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; effective for accounting periods commencing on or after 1 January 2009.
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; effective for accounting periods commencing on or after 1 January 2009.
IFRIC 16	Hedges of a Net Investment in a Foreign Operation. effective for accounting periods commencing on or after 1 October 2008.
IFRIC 17	Distribution of Non-cash Assets to Owners.
IFRIC 18	Transfers of Assets from Customers.

Annual Improvements Projects May 2008 and April 2009

Standards in Issue But Not Yet Effective

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

IFRS 9	Financial Instruments – Classification and Measurement: effective for accounting periods commencing on or after 1 January 2013.
IFRS 1	First-time Adoption of IFRS – Amendment; Additional Exemptions for First-time Adopters.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments; effective for accounting periods commencing on or after 1 January 2010.

Accounting Policies *continued*

IFRIC14	Pensions accounting – minor amendment
IAS 24	Related party disclosures – amendments to definition of a related party and additional disclosure requirement
IAS 36	Impairment of assets – minor amendment re unit of accounting for goodwill impairment testing

Annual Improvements Project May 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 Preparation

The consolidated financial statements incorporate those of Lok'nStore Group plc and all of its subsidiary undertakings for the year ended 31 July 2010. 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 acquisition 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 acquiree. 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.

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 cash balances of £5.4 million, and undrawn committed bank facilities at 31 July 2010 of £11.9 million and cash generated from operations in the year to 31 July 2010 of £3.47 million (2009: £1.73 million). The accounts are therefore prepared on a going concern basis.

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.

Segmental Information

In accordance with the requirements of IFRS8 Operating Segments, the Group has reviewed its identifiable business segments and the information used and provided internally to the Board, which is considered to be the Chief Operating Decision Maker, in order to make decisions about resource allocation and performance management. It considers that it operates as one unified business, and is engaged in one principal activity based entirely within the United Kingdom. Accordingly this has not required any modification to the presentation of the segmental information as disclosed under note 1b.

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 profit or loss and are amortised against the carrying value amount of the loan over the entire period of the loan.

Borrowing costs are recognised in profit or loss in the year in which they are incurred, unless the costs are incurred as part of the development of a qualifying asset, when they will be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Commencement of capitalisation is the date when the Group incurs expenditure for the qualifying asset, incurs borrowing costs and undertakes activities that are necessary to prepare the assets for their intended use. In the case of suspension of activities during extended periods, the Group suspends capitalisation. The Group ceases capitalisation of borrowing costs when substantially all of the activities necessary to prepare the asset for use are complete.

The Group's date of adoption was 1 August 2009, (the first annual period commencing after the IAS 23 (Revised) Borrowing Costs effective date of 1 January 2009). All of the Group's current qualifying assets predate the date of adoption and accordingly, under the transitional adoption arrangements, no borrowing costs are capitalised in the current year and there is no prior year restatement as a result of this change in accounting policy.

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 statement of comprehensive income, and before all depreciation charges, share-based payments, impairment of goodwill, finance income and costs and taxation.

Store EBITDA

Store EBITDA is defined as EBITDA (see above) but before central and head office costs.

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 statement of comprehensive income, 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 statement of comprehensive income 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 profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income.

Retirement Benefits
The amount charged to profit or loss 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 profit or loss 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.

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 statement of comprehensive income 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 profit or loss and are not reversed in the subsequent period.

Accounting Policies *continued*

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 profit or loss. 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 profit or loss.

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 profit or loss in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to profit or loss 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.

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 profit or loss.

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 approximate 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 11a to the accounts. The carrying value of properties held at valuation at the balance sheet date was £59.4 million (2009: £57.6 million).

Market Uncertainty

Cushman & Wakefield's ('C&W's') valuation report comments on valuation uncertainty resulting from the recent global banking crisis coupled with the economic downturn which have caused a low number of transactions in the market for self storage property.

C&W note that although there were a number of transactions in 2007, the only two significant transactions since 2007 are the sale of a 51% share in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008 and the sale of the former Keepsafe portfolio by Macquarie to Alligator Self Storage which was completed in January 2010. 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, ('C&W') 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 active 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 holds planning permissions on all of its pipeline sites as a result of the painstaking and detailed work undertaken to complete the pre-planning and planning phases required on each site. During this year it has been engaged with the four sites to see how the potential of the existing permissions could be further maximised. The movement in costs is as a result of this work.

The carrying value of development property assets at the balance sheet date was £10.8 million (2009: £10.8 million) of which £2.86 million relating to the long lease at Maidenhead was classified as a property lease premium in the balance sheet (2009: £2.83 million).

Accounting Policies *continued*

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 (2009: £nil).

Notes to the Financial Statements
For the year ended 31 July 2010

1a Revenue
Analysis of the Group's operating revenue is shown below:

	2010 £	2009 £
Stores trading		
Self-storage revenue	**9,259,949**	8,879,536
Other storage related revenue	**1,034,889**	927,498
Ancillary store rental revenue	**5,217**	5,217
Management fees	**21,622**	20,795
Sub-Total	**10,321,677**	9,833,046
Stores under development		
Non-storage income (refer note 30)	**98,763**	175,632
Total revenue per statement of comprehensive income	**10,420,440**	10,008,678

1b Segmental information
IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board to allocate resources to the segments and to assess their performance. There remains one business segment as the Group's net assets, revenue and profit before tax are attributable to one principal activity, the provision of self-storage accommodation and related services after deduction of trade discounts and value added tax. These all arise in the United Kingdom. No individual customer accounts for more than 1% of Total Revenue and no group of entities under common control (e.g. Government) account for more than 10% of total revenues.

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.

	2010 £	2009 £
Retail	**144,337**	181,725
Insurance	**21,190**	31,080
Van Hire	**59,522**	69,859
	225,049	282,664

2b Administrative Expenses

	2010 £	2009 £
Property/premises costs	**3,467,011**	3,416,305
Staff costs	**2,702,965**	2,715,381
General overheads	**1,090,818**	1,146,415
	7,260,794	7,278,101

2c Settlement of Harlow Build Costs

	2010 £	2009 £
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

	2010 £	2009 £
Bank interest	**15,456**	61,079
Other interest	**3,523**	3,247
	18,979	64,326

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

4 Finance Costs

	2010 £	2009 £
Bank loan interest	**508,687**	1,055,283

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

5 Profit Before Taxation

	2010 £	2009 £
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
– owned assets	**1,832,477**	1,839,458
Operating lease rentals:		
– land and buildings	**1,427,264**	1,369,587
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	**45,000**	47,250
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	**5,000**	6,250
Other services supplied pursuant to such legislation		
– interim review	**7,000**	22,500
Tax services		
– compliance services	**16,000**	25,150
– advisory services	**55,290**	46,131
Other services		
– work in respect of Company Share Incentive Plan (SIP)/CSOP	**5,093**	–
	133,383	147,281
Comprising		
Audit services	**50,000**	53,500
Non-audit services: Company and UK subsidiaries	**83,383**	93,781
	133,383	147,281

6 Employees

	2010 No.	2009 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**83**	84
Administration	**19**	19
	102	103

	2010 £	2009 £
Costs for the above persons:		
Wages and salaries	**2,160,026**	2,159,425
Social security costs	**200,439**	206,769
Pension costs	**25,563**	27,245
	2,386,028	2,393,439
Share-based remuneration (options)	**181,436**	289,864
	2,567,464	2,683,303

Share-based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £104,259 (2009: £103,899) 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 statement of comprehensive income.

In relation to pension contributions, there was £4,167 (2009: £3,765) outstanding at the year-end.

Directors' Remuneration

2010	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive						
A Jacobs	190,000	8,000	2,157	200,157	–	200,157
SG Thomas	47,500	2,000	2,321	51,821	–	51,821
RA Davies	96,750	4,000	1,499	102,249	–	102,249
CM Jacobs	51,775	2,000	1,917	55,692	–	55,692
Non-Executive						
RJ Holmes	19,000	–	–	19,000	–	19,000
RW Jackson*	7,500	–	–	7,500	–	7,500
ETD Luker	23,750	–	–	23,750	–	23,750
CP Peal	19,000	–	–	19,000	–	19,000
	455,275	**16,000**	**7,894**	**479,169**	**–**	**479,169**

* RW Jackson retired at the December 2009 Annual General Meeting.

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
ETD 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.

6 Employees continued

During the year services totalling £276,920 (2009: £262,721) 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 above. There were performance bonuses earned and payable to VAS for the year of £10,000 (2009: Nil). See note 32 on 'Related Party Transactions' for further information.

Pension contributions of £8,944 (2009: £3,225) 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 (2009: one).

7 Taxation

	2010 £	2009 £
Income Tax Expense/(Credit)		
Current tax:		
UK corporation tax at 28%	–	–
Deferred tax:		
Origination and reversal of temporary differences	310,269	14,128
Impact of change in tax rate on closing balance	(102,742)	–
Adjustments in respect of prior year	1,873	(72,220)
Total deferred tax	209,400	(58,092)
Income tax expense/(credit) for the year	209,400	(58,092)

The charge for the year can be reconciled to the profit/(loss for the year) as follows:

	2010 £	2009 £
Profit/(loss) before tax	430,524	(656,051)
Tax on ordinary activities at the standard rate of corporation tax in the UK of 28%	120,547	(183,694)
Expenses not deductible for tax purposes	7,823	8,193
Depreciation of non-qualifying assets	94,367	108,467
Share-based payment charges in excess of corresponding tax deduction	50,802	81,162
Impact of change in tax rate on closing balance	(102,742)	–
Amounts not recognised in deferred tax	36,730	–
Adjustments in respect of prior periods – deferred tax	1,873	(72,220)
Income tax expense/(credit) for the year	209,400	(58,092)
Effective tax rate	49%	9%

Non deductible expenses consist mainly of depreciation charges on the Group's properties which do not qualify for tax allowances.

In addition to the amount charged to profit or loss for the year, deferred tax relating to the revaluation of the Group's properties amounting to £388,426 (2009: £2,125,085 credit) has been charged directly to other comprehensive income (refer note 19 deferred tax).

8 Dividends

	2010 £	2009 £
Amounts recognised as distributions to equity holders in the year:		
Final dividend for year ended 31 July 2008 (0.67 pence per share)	–	167,446
Interim dividend for the six months to 31 January 2009	–	–
Final dividend for the year ended 31 July 2009 (1 pence per share)	249,937	–
Interim dividend for the six months to 31 January 2010 (0.33 pence per share)	82,479	–
	332,416	167,446

In respect of the current year, the Directors propose that a final dividend of 0.67 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £168,125 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefits 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 17 November 2010; the record date 19 November 2010; with an intended payment date of 17 December 2010.

9 Earnings/(Loss) per Share

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

	2010 £	2009 £
Profit/(loss) for the financial year	221,124	(597,959)

	2010 No. of shares	2009 No. of shares
Weighted average number of shares		
For basic earnings per share	24,993,653	24,993,653
Dilutive effect of share options	49,502	–
For diluted earnings per share	25,043,155	24,993,653

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

	2010	2009
Earnings/(loss) per share		
Basic	0.88p	(2.39p)
Diluted	0.88p	(2.39p)

There is no dilutive effect of the options in 2009 due to the loss arising in the year.

10 Intangible Assets – Goodwill

Group	Purchased goodwill 2010 £	Purchased goodwill 2009 £
Cost		
1 August	334,813	334,813
Amounts written off	(334,813)	–
31 July	–	334,813
Impairment		
1 August	334,813	334,813
Amounts written off	(334,813)	–
31 July	–	334,813
Net book value	–	–

Notes to the Financial Statements *continued*

For the year ended 31 July 2010

11a Property, Plant and Equipment

Group	Development property assets at cost £	Land and buildings at valuations £	Short leasehold improvements at cost £	Fixtures, fittings and equipment at cost £	Motor vehicles at cost £	Total £
Cost or valuation						
1 August 2008	11,754,487	55,201,824	2,470,943	14,257,265	167,345	83,851,864
Additions	1,730,597	222,838	21,395	122,438	42,908	2,140,176
Transfers	(5,446,295)	4,494,448	–	951,847	–	–
Reclassification	(85,040)	85,040	–	–	–	–
Disposals	–	–	–	–	(48,279)	(48,279)
Revaluations	–	(8,058,101)	–	–	–	(8,058,101)
31 July 2009	**7,953,749**	**51,946,049**	**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	**7,953,749**	**51,946,049**	**1,335,780**	**9,684,181**	**121,070**	**71,040,829**
Cost or valuation						
1 August 2009	7,953,749	51,946,049	2,492,338	15,331,550	161,974	77,885,660
Additions	36,114	161,297	47,231	275,329	550	520,521
Reclassification	(55,700)	55,700	–	–	–	–
Disposals	–	–	–	–	(5,000)	(5,000)
Revaluations	–	1,967,897	–	–	–	1,967,897
31 July 2010	**7,934,163**	**54,130,943**	**2,539,569**	**15,606,879**	**157,524**	**80,369,078**
Depreciation						
1 August 2009	–	–	1,156,558	5,647,369	40,904	6,844,831
Depreciation	–	486,683	193,475	1,125,870	26,449	1,832,477
Revaluations	–	(486,683)	–	–	–	(486,683)
Disposals	–	–	–	–	(1,646)	(1,646)
31 July 2010	**–**	**–**	**1,350,033**	**6,773,239**	**65,707**	**8,188,979**
Net book value at 31 July 2010	**7,934,163**	**54,130,943**	**1,189,536**	**8,833,640**	**91,817**	**72,180,099**

If all property, plant and equipment was stated at historic cost the carrying value would be £42.5 million (2009: £43.6 million).

The additions of £0.2 million to land and buildings include the costs of completing Harlow, other professional costs incurred in maximising the potential of existing planning permissions on the Portsmouth North Harbour, Southampton and Reading sites.

The additions of £0.28 million to fixtures and fittings relate principally to the fit-out at Harlow as well as refit of the reception at the Poole store.

Property, plant and equipment (non-current assets) with a carrying value of £72.2 million (2009: £71.0 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.

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 £206,861 (2009: £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 2010, 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 six 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 £70.2 million (2009: £67.6 million) of which £59.4 million (2009: £57.6 million) relates to freehold properties, and £10.8 million (2009: £10.0 million) relates to properties held under operating leases.

Freehold 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.

For the trading properties 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 £59.4 million valuation of the freehold properties £5.2 million relates to the net book value of fixtures, fittings and equipment, and the remaining £54.2 million relates to freehold properties.

The 2010 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 reflects 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 2010.

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, student accommodation, licensed properties, marinas and petrol stations.

The UK self-storage sector differs from the USA in that the larger multiples control in the region of 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 although there has been a renewal in activity in 2010 as referred to below.

11a Property, Plant and Equipment continued
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 72.14% (2009: 75.49%). 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, yields for other trading property types such as hotels and student housing, 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 5.68% (2009: 5.15%). This rises to 11.81% (2009: 12.47%) 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 12.20% (2009: 12.46%).
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.

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 13 years and two months as at 31 July 2010 (11 years and 4 months as at 31 July 2009). Valuations for stores held under operating leases are not reflected in the balance sheet and the assets in relation to these stores are carried at cost less accumulated depreciation.

Market Uncertainty
Cushman & Wakefield's ('C&W's') valuation report comments on valuation uncertainty resulting from the recent global banking crisis coupled with the economic downturn which have caused a low number of transactions in the market for self storage property.

C&W note that although there were a number of transactions in 2007, the only two significant transactions since 2007 are the sale of a 51% share in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008 and the sale of the former Keepsafe portfolio by Macquarie to Alligator Self Storage which was completed in January 2010. 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, ('C&W') 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 active market conditions.

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 (2009: £10.8 million) of which £2.86 million relating to the long lease at Maidenhead is classified as a non-current asset in the balance sheet (2009: £2.83m). 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	2010 £	2009 £
Property lease premiums	**2,860,781**	2,826,199

12 Investments

Investment in Subsidiary Undertakings	£
1 August 2008	
Capital contributions arising from share-based payments	289,864
31 July 2009	1,309,046
1 August 2009	
Capital contributions arising from share-based payments	81,436
31 July 2010	**1,490,482**

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 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Consumables and goods for resale	**70,085**	67,104	**–**	–

The amount of inventories recognised as an expense during the year was £144,337 (2009: £181,725).

14 Trade and Other Receivables

	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Trade receivables	**794,131**	684,630	**–**	–
Other receivables	**47,483**	78,073	**–**	–
Prepayments and accrued income	**349,142**	438,193	**–**	–
	1,190,756	1,200,896	**–**	–

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

14 Trade and Other Receivables continued

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 receivables with a carrying amount of £54,568 (2009: £62,001) 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 (2009: 52 days past due).

Ageing of past due but not impaired receivables.

	Group 2010 £	Group 2009 £
0–30 days	**13,826**	15,764
30–60 days	**3,784**	3,891
60+ days	**36,958**	42,346
Total	**54,568**	62,001

Movement in the allowance for doubtful debts.

	Group 2010 £	Group 2009 £
Balance at the beginning of the year	**91,846**	72,057
Impairment losses recognised	**12,758**	45,600
Amounts written off as uncollectible	**(23,564)**	(25,811)
Balance at the end of the year	**81,040**	91,846

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 2010 £	Group 2009 £
0–30 days	**–**	–
30–60 days	**–**	–
60+ days	**81,040**	91,846
Total	**81,040**	91,846

15 Trade and Other Payables

	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Trade payables	460,527	460,917	–	–
Taxation and social security costs	391,743	245,449	–	–
Other payables	957,352	932,319	–	–
Accruals and deferred income	1,864,816	1,502,904	–	–
	3,674,438	3,141,589	–	–

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. These were all settled in the previous financial year.

	2010 £	2009 £
Provisions		
Provision at start of year	–	84,664
Amounts paid during the year	–	(47,404)
Release of provision for the year	–	(37,260)
Provision at end of year	–	–

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 the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 31. 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.

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

	Group 2010 £	Group 2009 £
Debt	(28,089,416)	(28,089,416)
Cash and cash equivalents	5,364,031	3,228,731
Net Debt	(22,725,385)	(24,860,685)
Balance sheet equity	39,108,306	36,972,008
Net debt to equity ratio	58.1%	67.2%

The decrease in the Group's gearing ratio arises through the combined effect of a decrease in net debt as a result of cash generated from operations and an increase in the valuation of its freehold properties. At 31 July 2010 the Group was carrying £10.8 million of development assets at cost compared to £10.8 million at 31 July 2009.

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.

17 Financial Instruments continued

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 the owners 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 and other Group assets with a net book value of £81.7 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 (2009: £40 million). This facility expires on 5 February 2012. Undrawn committed facilities at the year-end amounted to £11,910,584 (2009: £11,910,584).

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 2010 are as follows:

	Group 2010 £	Group 2009 £
Variable rate treasury deposits*	**5,185,624**	3,128,243

* Money market rates for the Group's variable rate treasury deposit track RBS base rate minus 0.05%. The rate attributable to the variable rate deposits at 31 July 2010 was 0.45%.

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.

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 2010, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £281,339 (2009: £312,691) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £281,339 (2009: £312,691). There would have been no effect on amounts recognised directly in other comprehensive income. The sensitivity has been calculated by increasing by 1% the average variable interest rate applying to the variable rate borrowings in the year, namely 1.81% (2009: 3.37%).

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.

17 Financial Instruments continued

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 2010 was £833,185 (2009: £754,519) on receivables and £5,364,031 (2009: £3,228,731) on cash and cash equivalents.

H Maturity Analysis of Financial Liabilities

The undiscounted contractual cash flow maturities are as follows:

2010 – Group

	Trade and other payables £	Borrowings £	Interest on borrowings £
From two to five years	–	–	–
From one to two years	–	28,089,416	770,870
Due after more than one year	–	28,089,416	770,870
Due within one year	2,037,007	–	507,884
Total contractual undiscounted cash flows	2,037,007	28,089,416	1,278,754

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	1,729,921	–	947,961
Total contractual undiscounted cash flows	1,729,921	28,089,416	2,386,791

The Group's only borrowings are through a senior five-year term revolving credit facility of £40 million secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £81.7 million together with cross-company guarantees of Lok'nStore Limited.

I Fair Values of Financial Instruments

Categories of Financial Assets and Financial Liabilities	**2010 £**	2009 £
Financial assets		
Trade and other receivables	**833,185**	762,703
Cash and cash equivalents	**5,364,031**	3,228,731
Financial liabilities		
Trade and other payables	**(2,037,007)**	(1,729,921)
Bank loans	**(28,036,885)**	(28,001,865)

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 and cash and cash equivalents 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.

17 Financial Instruments continued

J Company's Financial Instruments

The Company's only financial assets are amounts owed by subsidiary undertakings amounting to £6.02 million (2009: £6.52 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 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Bank loans repayable in more than two years but not more than five years				
Gross	28,089,416	28,089,416	–	–
Deferred financing costs	(52,531)	(87,551)	–	–
Bank loans repayable in more than two years but not more than five years				
Net	28,036,885	28,001,865	–	–

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 £81.7 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	2010 £	2009 £
Liability at start of year	10,248,297	12,431,474
Charge/(credit) to income for the year	209,400	(58,092)
Tax credited directly to other comprehensive income	388,426	(2,125,085)
Liability at end of year	10,846,123	10,248,297

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 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 other comprehensive income	–	–	–	(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
Charge/(credit) to income for the year	18,271	370,607	(18,825)	(69,662)	(90,991)	209,400
Charge to other comprehensive income	–	–	–	388,426	–	388,426
At 31 July 2010	1,479,671	(1,092,726)	–	8,002,401	2,456,777	10,846,123

At the balance sheet date, the Group has unused revenue tax losses of approximately £4.18 million (2009: £5.23 million) available to carry forward against future profits of the same trade. A deferred tax asset of £1.09 million (2009: £1.46 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 £8,000 (2009: £nil) arises in respect of the share options in existence at 31 July 2009 but has not been recognised in the accounts. No deferred tax asset arises in relation to the remainder of the share options as at 31 July 2010 as the share price at the year-end is below the exercise price of the options.

20 Share Capital

	2010 £	2009 £
Authorised:		
35,000,000 Ordinary Shares of 1 pence each (2009: 35,000,000)	**350,000**	350,000

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

Movement in Issued Share Capital	Number	Called up, allotted and fully paid £
Number of shares at 31 July 2009 and 31 July 2010	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 11 December 2009, 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. On 28 June 2010 the Group obtained HMRC approval for a new Company Share Option Plan ('CSOP') (refer note 25).

The Company has the following share options:

Summary	As at 31 July 2009	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2010
Enterprise Management Initiative Scheme (refer note 22)	491,901	–	–	–	**491,901**
Approved Share Options Scheme (refer note 23)	5,837	–	–	(5,837)	**–**
Unapproved Share Options (refer note 24)	2,086,906	126,981	–	(21,674)	**2,192,213**
Approved CSOP Share Options (refer note 25)	–	179,019	–	–	**179,019**
Total	2,584,644	306,000	–	(27,511)	**2,863,133**
Options held by Directors	1,490,000	175,000	–	(10,000)	**1,655,000**
Options not held by Directors	1,094,644	131,000	–	(17,511)	**1,208,133**
Total	2,584,644	306,000	–	(27,511)	**2,863,133**

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	–	–	(13,621)	5,837
Unapproved Share Options (refer note 24)	1,775,906	343,000	–	(32,000)	2,086,906
Total	2,297,265	343,000	–	(55,621)	2,584,644
Options held by Directors	1,270,000	220,000	–	–	1,490,000
Options not held by Directors	1,027,265	123,000	–	(55,621)	1,094,644
Total	2,297,265	343,000	–	(55,621)	2,584,644

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 (2009: nil).

21 Equity Settled Share-Based Payment Plans continued

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 £181,436 (2009: £289,864), all of which relates to equity-settled share-based payment transactions. In total a 'share-based payments reserve' at 31 July 2010 of £1,275,925 results (2009: £1,094,483).

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 £90,652 (2009: £70,291).

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 2010 number	Weighted average exercise price 2010 pence	Options 2009 number	*Weighted average exercise price 2009 pence
Outstanding at 1 August	**491,901**	**129.31**	501,901	129.91
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	(10,000)	156.00
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 July	**491,901**	**129.31**	491,901	129.31
Exercisable at 31 July	**491,901**	**129.31**	491,901	129.31

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

The share price at the year-end was 85 pence per share. The share price ranged from 64.0 pence per share to 108.0 pence per share during the year. The exercise prices for shares exercisable at 31 July ranged from 93.0 pence per share to 176.5 pence per share.

22 Enterprise Management Initiative Scheme continued

The options outstanding at 31 July 2010 had a weighted average contractual life of 4.5 years (2009: 6 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 2009	Granted	Surrendered	As at 31 July 2010	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 2010 number	**Weighted average exercise price 2010 pence**	Options 2009 number	Weighted average exercise price 2009 pence
Outstanding at 1 August	**5,837**	**175.00**	19,458	102.40
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(5,837)**	**175.00**	(13,621)	75.00
Outstanding at 31 July	**–**	**–**	5,837	175.00
Exercisable at 31 July	**–**	**–**	5,837	175.00

During the year 5,837 approved options to subscribe for Ordinary Shares at 175.0 pence per share with an exercise period of 31 May 2003 to 31 May 2010 expired.

There were no options outstanding at the end of the year and the scheme is now closed.

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.

Movements in the year are shown below:

	Options 2010 number	Weighted average exercise price 2010 pence	Options 2009 number	*Weighted average exercise price 2009 pence
Outstanding at 1 August	**2,086,906**	**136.18**	1,775,906	138.90
Granted during the year	**126,981**	**85.00**	343,000	50.92
Forfeited during the year	**(10,000)**	**56.50**	(32,000)	135.69
Exercised during the year	**–**	**–**	–	–
Expired during the year	**(11,674)**	**71.00**	–	–
Outstanding at 31 July	**2,192,213**	**136.18**	2,086,906	138.95
Exercisable at 31 July	**1,351,232**	**162.16**	926,678	138.95

* 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 6.8 years (2009: 8 years). The exercise prices for shares exercisable at 31 July 2009 ranged from 102.0 pence per share to 269.5 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
31 July 2010	6	85.00	85.00	39.22	1.56	2.29	29.62

24 Unapproved Share Options continued

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

	As at 31 July 2009	Granted £	Exercised/ lapsed £	As at 31 July 2010	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
A Jacobs	–	50,000	–	**50,000**	85.0	30/07/13	30/07/20
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
S Thomas	–	50,000	–	**50,000**	85.0	30/07/13	30/07/20
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
R Davies	–	26,470	–	**26,470**	85.0	30/07/13	30/07/20
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
C Jacobs	–	255	–	**255**	85.0	30/07/13	30/07/20
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

10,000 shares granted to R Jackson lapsed upon his retirement from the Board in December 2009.

* 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 CSOP Approved Share Options

On 2 June 2010 the Group adopted a Company Share Option Plan ('CSOP'). The CSOP subsequently achieved HMRC approval on 28 June 2010. There are no performance conditions attached to share options issued under CSOP.

Movements in the year are shown below:

	Options 2010 number	Weighted average exercise price 2010 pence	Options 2009 number	Weighted average exercise price 2009 pence
Outstanding at 1 August	–	–	–	–
Granted during the year	179,019	85.00	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 July	179,019	85.00	–	–
Exercisable at 31 July	–	–	–	–

The options outstanding at 31 July 2010 had a weighted average remaining contractual life of 10 years (2009: n/a). There were no options exercisable at 31 July 2010.

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
30 July 2010	6	85.00	85.00	39.22	1.56	2.29	29.62

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

	As at 31 July 2009	Granted £	Exercised/ lapsed £	As at 31 July 2010	Exercise price (pence)	Date from which exercisable	Expiry date
R Davies	–	23,530	–	23,530	85.0	30/07/13	30/07/20
C Jacobs	–	24,745	–	24,745	85.0	30/07/13	30/07/20

26 Other Reserves

Group	Merger reserve £	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
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)
1 August 2009	**6,295,295**	**5,735,556**	**34,205**	**1,094,483**	**13,159,539**
Share-based remuneration (options)	–	–	–	181,436	181,436
Dividend paid	–	(332,416)	–	–	(332,416)
31 July 2010	**6,295,295**	**5,403,140**	**34,205**	**1,275,919**	**13,008,559**

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.

26 Other Reserves continued

Company	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
1 August 2008	**5,903,002**	**34,205**	**804,619**	**6,741,826**
Share-based remuneration (options)	–	–	289,864	289,864
Dividend paid	**(167,446)**	**–**	**–**	**(167,446)**
1 August 2009	**5,735,556**	**34,205**	**1,094,483**	**6,864,244**
Share-based remuneration (options)	–	–	181,436	181,436
Dividend paid	**(332,416)**	**–**	**–**	**(332,416)**
31 July 2010	**5,403,140**	**34,205**	**1,275,919**	**6,713,264**

27 Retained Earnings

Group	Retained earnings before deduction of own shares £	Own shares (note 28) £	Retained earnings total £
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
1 August 2009	**5,681,334**	**(2,592,812)**	**3,088,522**
Profit/(loss) for the financial year	221,124	–	221,124
Transfer from revaluation reserve	188,346	–	188,346
31 July 2010	**6,090,804**	**(2,592,812)**	**3,497,992**

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 Group's 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 loss for the year was £168,652 (2009: £nil).

28 Own Shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
1 August 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**
Transfer out of scheme	–	–	–	–	–
31 July 2010	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**

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 purchased 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 27).

28 Own Shares continued

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 2010, the Trust held 623,212 (2009: 623,212) Ordinary Shares of 1 pence each with a market value of £529,730 (2009: £352,115). No shares were transferred out of the scheme during the year (2009: 1,388).

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

29 Cash Flows

(a) Reconciliation of Loss Before Tax to Net Cash Inflow From Operating Activities

	2010 £	2009 £
Profit/(loss) before tax	430,524	(656,051)
Depreciation	1,832,477	1,839,458
Share-based employee remuneration	181,436	289,864
Loss on sale of fixed assets	452	7,322
Interest receivable	(18,979)	(64,326)
Interest payable	508,687	1,055,283
(Increase)/decrease in inventories	(2,980)	25,607
Decrease in receivables	10,140	1,095,138
Increase/(decrease) in payables	524,537	(1,778,563)
Decrease in provisions	–	(84,664)
Net cash inflow from operating activities	3,466,294	1,729,068

(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 2010 £	31 July 2009 £
Increase in cash in the year	2,135,300	747,905
Change in net debt resulting from cash flows	–	(2,655,619)
Movement in net debt in year	2,135,300	(1,907,714)
Net debt brought forward	(24,860,685)	(22,952,971)
Net debt carried forward	(22,725,385)	(24,860,685)

30 Commitments Under Operating Leases

At 31 July 2010 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 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Land and buildings				
Amounts due:				
Within one year	1,287,352	1,399,692	–	–
Between two and five years	4,709,408	5,378,768	–	–
After five years	7,018,703	5,886,795	–	–
	13,015,463	12,665,255	–	–

30 Commitments Under Operating Leases continued

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 £98,763 (2009: £175,632). 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 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Within one year	57,413	91,185	–	–

31 Events After the Balance Sheet Date

Acquisition of Property Option

On 24 September 2010 the Group announced the acquisition of an option to acquire a site in Southend. The site extends to 1.2 acres and fronts the busy Eastern Avenue near the town centre. When developed the site will provide up to 60,000 square feet of storage space in a prominent, modern building. The project is subject to planning permission.

32 Related Party Transactions

The following balances existed between the Company and its subsidiaries at 31 July:

	2010 £	2009 £
Net amount due from Lok'nStore Limited	6,019,763	6,520,831

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 2010.

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.

	2010 £	2009 £
Short-term employee benefits	479,169	453,479
Post employment benefits	8,944	3,255
Share-based payments	99,318	138,571
Total	587,431	595,305

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 (2009: £nil). The maximum balance outstanding at any time during the year was £24,252 (ex VAT) (2009: £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 (2009: £6,000). The balance outstanding to Trucost PLC at year-end was £nil (2009: £nil).

32 Related Party Transactions continued

The Group has 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 £21,434 (2009: £19,790). There was £1,791 outstanding due to Keith Jacobs at the year-end (2009: £138). The maximum balance outstanding at any time during the year is £1,791 (ex VAT) (2009: £nil).

32a Capital Commitments and Guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £84,984 (2009: £49,020) 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 £28.1 million (2009: £28.1 million).

32c Contingent Liability – Value 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 remains 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.

Current Dealings with HMRC

On 25 February 2008, HMRC determined that it was appropriate to raise an assessment in the amount of £140,902.95 in respect of Lok'nStore's partial exemption calculations, under the Standard Partial Exemption Method ('standard method') for the VAT periods April 2005 through April 2007. Lok'nStore rejected the basis of this assessment and 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 was requested which upheld the rejection of a PESM. This decision was appealed by Lok'nStore to the Tax Tribunal in September 2009. Counsel also confirmed that Lok'nStore should carry out a Standard Method Override Calculation ('SMO') and that this should be calculated on the same basis as the proposed mixed floor space and values based method.

Position at Year-End

There are two appeals lodged at the Tax Tribunal; one in respect of the proposed PESM going forward and the other in respect of the SMO calculations for the past VAT periods. It has been agreed with the Tribunal and HMRC that the second appeal (i.e. the SMO appeal) will be stood over pending the outcome of the first appeal in respect of the proposed PESM.

On a range of outcomes, on a worst case scenario, the overall liability in relation to input tax claimed up to the end of July 2010 which may become repayable to HMRC totals £327,765 (2009: £294,975) based on the standard method restriction. Of this £192,830 (2009: £187,947) relates to capital expenditure inputs (Balance Sheet) and £134,935 (2009: £107,028) relates to income statement items. Alternatively, 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 £77,005 (2009: £71,540). On a pro rata basis this potential liability between restricted inputs gives a liability of £51,472 (2009: £48,248) relating to capital expenditure inputs (Balance Sheet) and £25,533 (2009: £23,291) relating to income statement items. Interest would be added to both totals.

It is not impossible that there should be no restriction of input tax incurred as calculations indicate that the proposed PESM, using a mixed floor space and values based method, gives a minimal restriction. As a result, no restriction of input tax will be required under this method on the basis that the de minimis limits are not breached.

While 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.

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