Lok’nStore Group Plc

Annual Report and Accounts

For the year ended 31 July 2012

Stock code: LOK

LOK’n STORE Self Storage

www.loknstore.com

Welcome to
Lok'nStore Group Plc

Introduction

Lok'nStore Group Plc is one of the leading companies in the fast growing UK self storage market. We have been listed on the Alternative Investment Market (AIM) since June 2000, and before that on the OFEX market from 1997. We opened our first self storage centre in Horsham in February 1995 and we have grown consistently, currently operating 22 stores in Southern England. Another 3 self storage centres will open in the coming year.

Our Business

We offer self storage and serviced document management. Self storage is available to both household and business customers at our highly branded Lok'nStore centres. Each centre is strategically located, mainly in the affluent South East of England in prominent locations within key towns and cities.

We recently acquired Saracen records management, and can now offer businesses anything from secure storage of one media tape, to full management of their business documentation with 24 hour retrieval. We excel in offering the best in customer service at competitive prices for both our Lok'nStore and Saracen customers.

Use your phone's barcode app to go to our website

For more information on Lok'nStore visit our website at **www.loknstore.co.uk**

Reasons to Invest in Lok'nStore

- ✔ The UK self storage market remains under-developed with only 0.5 square feet per head of population compared with 7.4 square feet in the United States
- ✔ The specific property requirements of self storage coupled with challenging local planning regimes create significant barriers to entry, especially in Southern England
- ✔ The self storage business is highly cash generative with high profit margins on established stores and all customers paying on a rolling 28 day basis
- ✔ Lok'nStore has a track record of strong and growing cash generation driving a rapidly increasing dividend
- ✔ Major new store in Maidenhead opening next year
- ✔ Significant growth in third party asset management in Aldershot and Crawley
- ✔ Experienced board and executive management team with clear strategic direction and proven business model

"This has been another year of very solid underlying trading for the Group, during which we have secured an attractive new bank facility and fixed the interest rate on the majority of our current debt securing our funding costs at a historically low level.

At an operating level we have continued to demonstrate an innovative approach to asset management, enabling the Group to increase its operational footprint while maintaining a strong balance sheet. With further valuable planning permissions obtained and renewed and the opening of the Aldershot and Maidenhead stores scheduled for 2013, we are poised to move ahead strongly over the next couple of years. Our new document storage business has made a good contribution in its first full year.

The Board has decided to significantly increase the dividend to 5p for the full year, and it is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business.

We have a secure financial base, an excellent development pipeline and robust trading which gives the Board the confidence to propose this step change in the dividend."

Andrew Jacobs, Chief Executive Officer

The Big Friendly Storage Company

Our Business

Our Performance

Our Governance

Our Financials

Highlights

For the year ended 31 July 2012

Financial

Revenue

↗18%

to £12.77m

Group EBITDA*

↗21%

to £3.97m

Adjusted Net Asset Value per Share**

£2.28

* EBITDA is defined as profits before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, acquisition costs, and non-recurring professional costs, finance income, finance costs and taxation.

** Based on Cushman & Wakefield LLP valuation, before deferred taxation.

- Revenue £12.77 million, up 18% (2011: £10.85 million)
- Group EBITDA £3.97 million, up 21% (2011: £3.28 million)
- Operating profit up 36% to £2.14 million (2011: £1.57 million)
- Profit before interest up 35% to £1.94 million (2011: £1.44 million)
- Annual dividend 5 pence per share, up 67% (2011: 3 pence per share)
- Successful refinancing of £40 million bank facility with interest on £20 million of debt fixed at 3.525%

Operational

Self storage:

Store EBITDA

£5.0m

Store EBITDA Margin

46.5%

EBITDA is defined as profits from operations before all depreciation charges, losses or profits on disposal, share-based payments, acquisition costs, finance income, finance costs and taxation.

Self storage:
- Store EBITDA £5.0 million up 3% (2011: £4.9 million)
- Store EBITDA profit margins up 1 percentage point to 46.5% (2011: 45.5%)
- Ancillary sales up 6% year-to-year

Document storage: (business acquired on 30 June 2011)
- EBITDA profit £474,062 (2011: £43,493 loss)

Property

- Planning permission obtained for new Maidenhead store incorporating Lidl discount food retailer – to open 2013
- New management contract for a new store in Aldershot (construction and opening in 2013)
- Planning permissions renewed at Southampton, Portsmouth and both of our Reading sites
- Acquisition of Swindon freehold reducing rental cost

Post Balance Sheet:

- Management contract on new Crawley store due to commence trading in Q4 2012

Key Metrics

- Loan to value ratio of 32.3%[1] (2011: 30.7%)
- Funds from operations ('FFO')[2] £3.24m = 13.0 pence per share (2011: 12.0 pence per share)
- Adjusted NAV £2.28 per share[3] (2011: £2.29 per share)

1 Calculation based on net debt of £25.7 million (2011: £24.4 million) and total property value of £79.7 million as set out on page 20.
2 Funds from Operations ('FFO') calculated as EBITDA minus Net Finance Cost on operating assets.
3 2012 Adjusted NAV £2.29 per share on a like for like basis (after adjusting for 'fair value' liability of Interest rate swaps taken out during the year).

Chairman's Review

Simon G Thomas

"Lok'nStore is a strong business with a record of consistent profit growth and cash generation and has built a strong platform for the coming years."

Simon G Thomas, Chairman

Well placed to grow

Strong Performance

We are pleased to report good results for Lok'nStore Group for the year ended 31 July 2012. The Group has again increased revenue and reduced operating costs in our self storage business. Margins, operating profits and cash flow have all increased to record levels.

With another period of solid underlying trading and a significant contribution from our document storage business in its first year the Board is confident of the Group's trading outlook over the coming years.

The development of the new Maidenhead store is now moving forward, the Swindon East freehold has been acquired on favourable terms and a number of lease extensions and rent reductions have been agreed. Recently two more management contracts were signed for new stores in Aldershot and Crawley.

Your Board continues to focus on optimising the performance of the existing stores and sites within our existing portfolio, capital expenditure remains tightly controlled and interest costs have now been secured at a low level so cash flow continues to grow.

Our operational progress has been enhanced by the launch of our new state of the art website which is already performing very well.

Dividend

Increasing cash flow, positive news on operational developments and security of funding has prompted a re-evaluation of the dividend policy. Over the past few years we have maintained a steady, if modest dividend pay-out of one penny per share which was increased to 3 pence per share last year. The dividend this year is to be increased by 67% to 5 pence (a final dividend of 4 pence per share) and we will adopt a progressive forward looking dividend policy following this step change. It is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business and will be declared at the interim and final stage, the interim dividend representing approximately one-third of the total for the year.

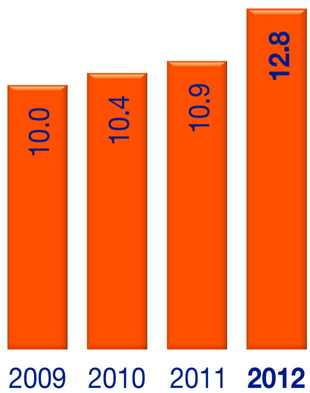
New £40 million Five Year Facility with Lloyds TSB plc

Underlining the strength of the cash flow and the asset base, the Group has signed a new five year £40 million revolving credit facility with Lloyds TSB plc during the year. Effective from 20 October 2011, the facility runs until 19 October 2016. The facility is flexible and does not require any amortisation prior to maturity. The loan currently bears interest at the London Inter-Bank Offer Rate (LIBOR) plus 2.35%. The interest cover and loan to value covenants are broadly in line with the previous facility.

The net interest charge in the coming year will rise to reflect the increase in the margin on this facility. Nevertheless the Group's margin of 2.35% already looks very attractive against the current market, and our all-in cost of funds of around 3.34% puts us in a very strong competitive position.

Additionally, over recent months Lok'nStore has fixed the interest rate on 70% of its debt at 3.525% creating even greater certainty on future funding costs. Since the middle of 2008 management has been aggressively managing down the interest payable and now feel it is appropriate to lock in to these historically low levels of interest.

Revenue £ million



During the year the Group complied with all banking covenants. At 31 July 2012, we had £10.3 million of the facility undrawn and £4.0 million of cash (2011: £3.8 million). This new banking facility allows us to plan with certainty for the next five year period. The details are explained in the Financial Review section of this Report.

VAT

In the Government's Annual Budget on 21 March 2012 the Chancellor announced proposals to correct certain anomalies in the VAT regime including in its application to self storage. Previously some self storage companies operated within the VAT regime while others were outside it. With effect from 1 October 2012 VAT was extended to include all self storage operations.

Unlike many operators in the self storage industry who have dis-applied VAT, Lok'nStore has always remained within the regime and 'opted to tax' VAT on its storage services. Therefore this change will have no direct impact on the Group or its customers. However most of our larger competitors who were de-registered are responding to this change either by increasing prices to help them absorb the tax or by reducing margins. This clearly has and will continue to have a positive effect on Lok'nStore's competitive position.

New document storage business

Following the purchase of Saracen Datastore Limited, a serviced document storage company, on 30 June 2011, Lok'nStore has now consolidated the accounting and other back office systems at its Farnborough Head Office. Marketing and HR functions have also been integrated into Lok'nStore's head office structures. More details of progress achieved are explained in the Chief Executive's Operating Review.

Properties and Net Asset Value

The year-end property valuation equates to a total value of properties held of £79.7 million (2011: £79.5 million).

Your Board continues to examine Lok'nStore's property portfolio for asset management opportunities as demonstrated by its recent agreement to extend the term on another of the Group's leasehold stores, the fourth such transaction over the last two years. Our property team remains alert to the opportunities that can appear in the current unsettled property market and an update of the current property opportunities is set out in the Property Review and in Note 29, Events after the Reporting Date.

The new venture at Aldershot and the new store in Maidenhead are expected to commence trading in 2013. The managed store in Crawley will open this year. These will increase the number of stores we manage to 25 and will capitalise on our efficient operating systems and growing internet marketing presence. These agreements also demonstrate Lok'nStore's ability to attract investment partners and create innovative ownership to drive the growth of the operating business.

Environmental Performance

Since 2005 Lok'nStore has measured its environmental performance. We are proud of our success in this important area and some of the highlights of this year's environmental report are:

- Indirect greenhouse gas (GHG) emissions intensity now down 81% since 2005
- Total waste sent to landfill reduced for eighth successive year, now just a quarter of 2005 levels
- Total water use again reduced, now halved from 2005 levels with intensity down by 70%

For details please see our full environmental report in the Directors' Report.

Outlook

Lok'nStore is a strong business with a record of consistent profit growth and cash generation and has built a strong platform for the coming years. We will seek to continue to grow revenue against tightly controlled costs, and this will provide continued momentum to EBITDA. With Group EBITDA of £4.0 million up 21% on the previous year, the strength of the Group's business model has been proven. Increasing the annual dividend by 67% and initiating a progressive dividend policy shows the Board's confidence.

Our target is to continue to increase EBITDA per share over the coming years. We have carefully evaluated the opportunities and believe there is significant further growth focused on five key areas:

1. Developing new stores on a self-funded basis as at Reading and Maidenhead
2. Developing the other new sites we already own when appropriate
3. Opportunistic site acquisitions (as some banks look to reduce their exposure to property in the future)
4. Increasing the number of stores we manage for third parties
5. Building our document storage offering

These are growth opportunities where we have the operating experience to execute effectively and that we can fund from our existing cash flow and our new £40 million bank facility.

Lok'nStore's efficient operating business, strong cash flow, and secure asset base ensures it is well placed to grow and prosper over the coming years. We have a dedicated and dynamic executive management team which remains committed to working for the interest of all shareholders, and providing steady growth in the value of Lok'nStore.

Simon G Thomas
Chairman
26 October 2012

Dividend 5 pence per Share

Group at a Glance

Going from Strength to Strength

Lok'nStore Group Plc is a key player in the UK self storage and records management with currently 22 self storage and 3 document storage centres. In the coming year we will open 3 new self storage centres.

Across our business we aim to differentiate ourselves by offering excellent service to our customers delivered by our 133 employees. As a testament to this service 22% of our customers come from referrals, existing customers and previous customers demonstrating the quality of our customer care.

At Lok'nStore Group Plc we have an excellent financial track record with EBITDA increasing 62% over the last 3 years. Over recent years our management team have focused their efforts on optimising the performance of the existing portfolio. The addition of the Saracen centres offering serviced records management, is a key step in furthering the Group's success.

Lok'nStore is one of the leading self storage companies in the UK, with centres across the South and South East of England.

Overview

Lok'nStore offers both household and business customers differing sized steel storage rooms to rent on a weekly basis; 77.4% of our customers are households and 22.4% business customers. At Lok'nStore we provide clean, safe and secure storage which allows our customers to use their own space flexibly and efficiently at a competitive cost.

Key Strengths

Lok'nStore gives a high degree of service as part of their offering, with each centre having a well-trained team of people to help customers efficiently use their space. Our Lok'nStore centres are fitted out to a high standard and maintain a common design and branding. They are well located, close to major urban centres, with car parking and easy access. Lok'nStore offers its customers a number of additional services such as insurance, fork lifts, boxes and other packaging.

Our 7,000 customers are well spread geographically across a range of very large to very small businesses and households across the income spectrum.

New Aldershot, Crawley and Maidenhead Stores

We will open our new store in Maidenhead (2013), a collaboration with Lidl, the chain of grocery stores. The new store will be opposite a busy retail park and close to Maidenhead town centre.

The Group will also be opening new stores in Crawley (2012) and Aldershot (2013) on behalf of investors. These two management agreements demonstrate our ability to attract investment partners who wish to capitalise on Lok'nStore's marketing presence and efficient central systems, as well as the tax benefits of investing in self storage.

The UK Self Storage Market

In the UK self storage market there are an estimated 815 self storage facilities and approximately 29.6 million sq. ft. of storage space. With a population of 62 million people in the UK, this equates to 0.5 sq. ft. per person, compared to 7.4 sq. ft. per person in the USA* and 1.1 sq. ft. per person in Australia.**

The sector remains in good health. Total annual turnover for the UK self storage industry in 2011 was £355 million from approximately 400 different operators. 15% of operators intend to open a new facility in 2012 – down from 24% in 2011.***

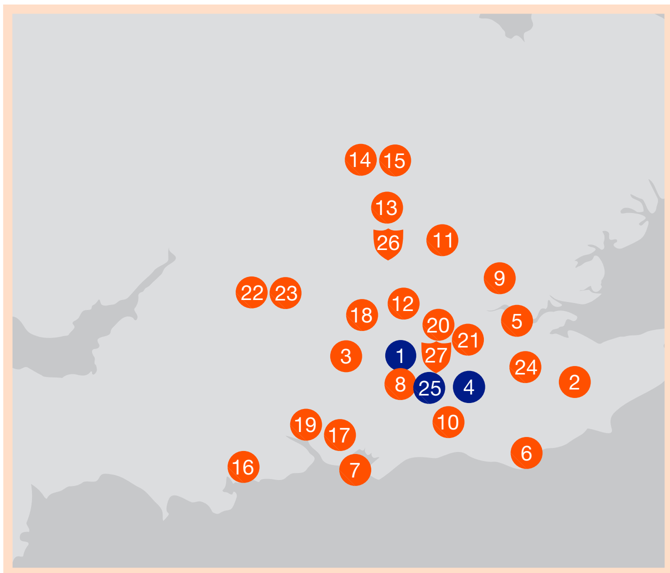
* 2012 US Self Storage Almanac.
** 2011 Australasian Self Storage Association.
*** Drivers Jonas Deloitte 2012 Report for the Self Storage Association.

Lok'nStore's Areas of Operation

Our current Lok'nStore self storage centres are spread across the South and South East of England. These centres have been providing low cost self storage services to householders, businesses and students since 1995. We have 3 new secure storage facilities planned to open late 2012 and in 2013.

Our Saracen sites are also strategically located for focusing on businesses in the South of England.

1. Aldershot (**NEW**, opening 2013)
2. Ashford
3. Basingstoke
4. Crawley (**NEW**, opening 2012)
5. Crayford
6. Eastbourne
7. Fareham
8. Farnborough
9. Harlow
10. Horsham
11. Luton
12. Maidenhead (**NEW**, opening 2013)
13. Milton Keynes
14. Northampton Central
15. Northampton Riverside
16. Poole
17. Portsmouth
18. Reading
19. Southampton
20. Staines
21. Sunbury
22. Swindon East
23. Swindon West
24. Tonbridge
25. Woking
26. Saracen Milton Keynes/Olney
27. Saracen Leatherhead



Key to map

- Lok'nStore owned stores
- Managed self storage centres
- Saracen locations

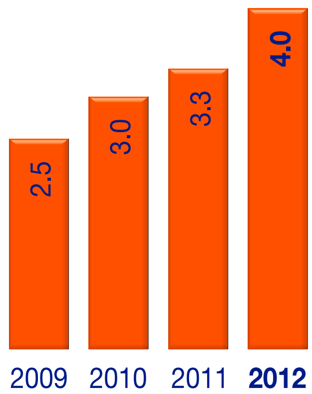
Chief Executive's Operating Review

Andrew Jacobs

"Margins, operating profits and cash flow have all increased to record levels."

Andrew Jacobs, Chief Executive Officer

Profit Growth EBITDA £ million



Sales and Earnings Up, Costs Down

Revenue for the year was £12.77 million, up 18% year on year (2011: £10.85 million), which resulted from an improved performance from the self storage business combined with the first substantial contribution from the acquisition of the document storage business.

With costs firmly under control this turnover growth translates into strong operating profit growth. Total store EBITDA in the self storage business, a key performance indicator of profitability and cash flow, increased 3% to £5.0 million (2011: £4.9 million). Group operating profit for the year is up 36% to £2.14 million (2011: £1.57 million).

Performance of Self Storage Centres

During the year occupancy increased by 2.9% while pricing decreased 1.5%. We again managed to lower costs increasing the overall EBITDA margin across all stores by 1 percentage point from 45.5% to 46.5%. The EBITDA margins of the freehold stores were 59.1% (2011: 58.8%) and the leasehold stores achieved margins of 30.8% (2011: 29.0%). The occupancy of the stores was up 2.9 percentage points to 58.3% (2011: 56.4%) of current lettable area.

At the end of July 2012 38.1% of Lok'nStore's revenue was from business customers (2011: 36.2%) and 61.9% was from household customers, (2011: 63.8%). By number of customers this breakdown was 22.4% business customers (2011: 22.5%) and 77.6% household customers (2011: 77.5%).

Operational Performance of owned Stores

Store analysis Weeks old at 31 July 2012	Over 250	100–250	Under 100	Pipeline	Total
Year ended 31 July 2012					
Revenue* (£'000)	9,976	782	–	–	10,758
Store EBITDA (£'000)	4,735	262	–	–	4,997
EBITDA margin (%)	47.5	33.5	–	–	46.5
As at 31 July 2012					
Maximum Area ('000 sq. ft.)	979	111	–	121	1,211
Freehold and long leasehold ('000 sq. ft.)	602	69	–	121	792
Short leasehold ('000 sq. ft.)	377	42	–	–	419
Number of stores					
Freehold and long leasehold	11	1	–	2	14
Short leasehold	8	1	–	–	9
Total stores	19	2	–	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.

Ancillary Sales

Ancillary sales which consists of boxes and packaging materials, insurance and other sales, increased by 6.0% over the year (2011: 1.2%) accounting for 10.1% of self storage revenues (2011: 9.9%). These ancillary sales are increasingly focused on insurance which increases the overall margin of these sales.

We continue to promote our insurance to new customers with the result that over 87% (2011: 86%) of new customers took our insurance over the year. This compares with 71% (2011: 68%) of our total customer base who buy our insurance, and this provides us with built-in growth in our insurance sales as our customer base turns over.

Marketing

During the year our marketing efforts were increasingly focused on the internet with approximately 2.7% of revenue spent on advertising and marketing (including postage, printing and stationery) (2011: 3.1%). The internet produces an increasing proportion of our enquiries (54% in the year) and printed directories a decreasing proportion. For this year, internet enquiries were up 71.5% year on year and total enquiries up 20.7%. We will continue to manage our marketing budget with a strong focus on cost control and value for money.

Despite the inexorable rise of internet marketing, around 43% (2011: 46%) of our business still comes from passing traffic and signage, so work on the visibility of our stores is also very important in our marketing effort. With their prominent positions, distinctive design and bright orange elevations, our stores help raise 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 team to ensure our marketing expenditure remains targeted and effective.

New Website

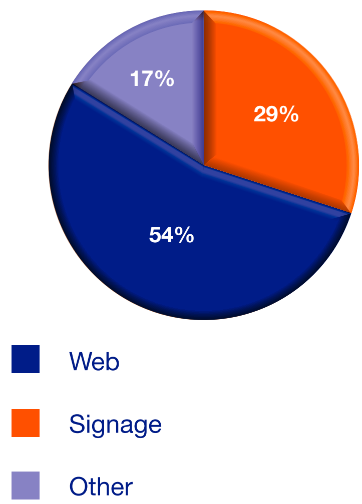
The internet is rapidly taking over as one of the main media channels for advertising and Lok'nStore is determined to respond to this change. Our new website at www.loknstore.co.uk was launched in the last week of February 2012 and for the year 54% of enquiries were from this source.

The new site has a much clearer navigation, making it easier for customers to find their way around the site and customers visiting the site are encouraged to book online to take advantage of our new online reservation system launched last year. We have also added a new "state of the art" space estimator to the site which is a key tool for customers booking online, enabling them to make an informed choice about the size of unit required.

This is a very dynamic area and we are committed to continued development. We believe the internet particularly provides a strong competitive advantage for the major operators with many stores and large marketing budgets compared with those of the smaller operators. This also creates a selling point for our third party store management services by driving much more traffic to the website than can an individual operator at a manageable cost.

Source of Enquiries

For the year ended 31 July 2012



Chief Executive's Operating Review

continued

Website Space Estimator

Use your phone's barcode app to try our Space Estimator shown above

Integration of our Document Storage Business

Lok'nStore has for some years earned around 10% of its revenue from self-serviced document storage, and we are keen to grow this stable and profitable area of the business. Following the purchase of Saracen Datastore Limited, a serviced document storage company on 30 June 2011, we have broadened the offering to our customers delivering an excellent entry point to a wider market segment complementing Lok'nStore's existing self storage activities. In its first full year the Saracen business added £2 million to Group revenue and £474,062 of EBITDA before inter-company management charges.

The integration of our new document storage business into our existing accounting and reporting systems is complete with the Lok'nStore Head office team having taken on most of the corporate and head office functions of Saracen including finance, marketing, HR & payroll. 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 and these are now also available to our document storage business.

There are further property cost savings to be targeted in 2013 as the Saracen business consolidates its warehouse capacity. As part of this strategy additions of £0.33 million were made in the current period to fixtures, fittings and equipment.

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. Importantly all of our stores are manned during opening hours.

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 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 Directors' 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, 33% (2011: 34%) 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 accordance with the terms and conditions agreed upon. We expect our suppliers to operate to these same principles.

Employees

At 31 July 2012 we had 133 employees (2011: 128).

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. Regular 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 their training. This in turn contributes to attracting and retaining the right people which is key to the success of Lok'nStore.

All employees are eligible to participate in share ownership plans. Lok'nStore operates a Share Incentive Plan with 71% of employees participating in the Scheme (2011: 73%). 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
26 October 2012

Property Review

"Expanding the operation of Lok'nStore while minimising capital outlay"

Pictured:
Aldershot, opening 2013 (Computer generated image)

Strong Cash Flows and Asset Base Underpin Opportunities

Lok'nStore's strong cash flow and tactical approach to its property portfolio provides the Group with opportunities to improve the terms of its property usage in all stages of the economic cycle. Lok'nStore has both freehold and leasehold properties, and manages stores for third parties.

On 31 July 2012, Lok'nStore acquired the freehold interest of its existing Swindon East store for a consideration of £925,000. This was financed by drawing on the Company's existing credit facility. The store has been trading since 2001 in leasehold premises which carried an annual rent payable of £108,050. There will be a corresponding £108,050 positive impact to the Company's EBITDA for the coming year. The implied yield at purchase of 11.7% is very attractive and with a current average cost of debt of just over 3% it will be immediately cash flow enhancing, increasing the financial strength of the Company while decreasing the operational gearing.

After this transaction 65% of Lok'nStore's own self storage sq. ft. space is freehold and 35% is leasehold. Following the opening of 3 new stores over the coming year, Lok'nStore's self storage business will be operating from 13 freehold sites, 9 leasehold sites and 3 managed stores.

Lower lease costs

Given the current property market weakness and Lok'nStore's strong covenant, some landlords are keen to extend lease terms providing them with greater security on their future income stream in return for rent-free periods, reduced rents and capped rent increases.

During the year we extended the lease on one of our existing stores while also reducing the rent and service charges. The agreement will extend the lease by up to ten years and will produce an annual saving of around £60,000 in rent and service charge over the coming five years, increasing the operating income of the store by approximately 25%.

The average length of the 7 leases which have been valued at the year-end is 14 years and 6 months, (2011:15 years and 2 months). Eight out of nine of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The leasehold sites produced 30% of the store EBITDA in the year to July 2012 (2011: 28%).

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

Management Contracts

Aldershot: In June 2012, Lok'nStore signed an agreement to develop and manage a new self storage centre in Aldershot, Hampshire. It is the second store management contract for the Company and will be managed for outside investors under the Lok'nStore brand. Lok'nStore will contribute approximately £2.5 million of development funds of the estimated £4.5 million total cost of development, and will manage the building and operation of the store. The other investors, including the original land owner have invested the remaining £2 million.

The property already has the benefit of a planning permission for a self storage facility and will be held in a separate limited liability partnership. The store will be located in a prominent location on the main Aldershot roundabout above the A331 with significant levels of passing traffic, and is expected to commence trading in 2013.

Lok'nStore will generate a return by charging a management fee for the construction, operation and branding of the store. This project is consistent with Lok'nStore's strategy of expanding the operating footprint of the business while maintaining its strong balance sheet. The investors were attracted by Lok'nStore's strong track record and the tax benefits of investing in self storage.

Crawley: In July 2012, the Group signed an agreement to manage a new self storage centre in Crawley, Sussex on behalf of an investor. Completion of the transaction took place after the year-end on 10 August 2012. This new larger site follows the same investor's already successful store in Woking, Surrey which has been managed by Lok'nStore since 2007. It is the third store management contract for Lok'nStore.

Lok'nStore will manage the fit-out and the operation of the store under the Lok'nStore brand which will commence trading later in 2012. The store is located in a prominent location and faces on to a busy roundabout on Gatwick Road in the centre of the Manor Royal business area.

Lok'nStore will generate a return by charging the Company a management fee with performance incentives.

Development Sites

Lok'nStore owns four development sites all with relevant planning permissions, two of which are for replacement stores at Reading and Southampton, and two are new locations in Maidenhead and Portsmouth North Harbour. All of these permissions have been renewed during the year. The Group has no immediate plans to progress development works at Portsmouth North Harbour and Southampton.

Maidenhead: This is a long leasehold site (the lease term runs until April 2076) of 1.6 acres for which we originally secured planning permission for a store of up to 83,000 sq. ft. of self storage. Following discussions to improve the value of the property further we signed an agreement to share the site with Lidl subject to planning permission. Lok'nStore's application to build a new self storage facility incorporating a Lidl store received planning consent on 29 December 2011.

Pictured:
Maidenhead, opening 2013 (Computer generated image)

Property Review

continued

Lok'nStore will now build a new "state of the art" self storage centre which provides space on the ground floor for Lidl's food store. The new self storage centre will have around 60,000 sq. ft. of self storage space. Lidl will share the ground floor space with Lok'nStore's operation, increasing the traffic by an estimated 1,000 cars a day. Lok'nStore will occupy its share of the ground floor and the entirety of the three floors above. The store will open in 2013.

The site is close to Maidenhead town centre and railway station and is very prominent to the retail park on the main road joining the town centre with the M4 motorway. The store will be of similar style and appearance to other recently opened Lok'nStore sites, with Lok'nStore's strong branding adding to the visual attractiveness of the site. This collaboration will increase the visual prominence, brand recognition, passing traffic and footfall of the storage centre which are key criteria for success. On completion of the new development Lok'nStore will manage 1,143,000 sq. ft. of lettable self storage space over 23 stores.

The innovative financing of the scheme agreed with Lidl, will require only a modest capital input from Lok'nStore and so allows us to continue to expand the Group's operating footprint without stretching the balance sheet. This transaction is typical of the type of opportunity your Board is pursuing, and we believe validates our strategy of a prudent but active approach. We believe Maidenhead is an excellent location for us, an affluent town right in the middle of our geographic coverage with little local competition. The town is also set to benefit from its position as the western terminal of Crossrail.

Reading: 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. On 4 October 2011 this planning permission was renewed providing a further 3 years to execute on this project.

The Group also has planning permission for a new 53,500 sq. ft. self storage centre on its site opposite the existing store, an increase in space of 29%. On 16 November 2011 this planning permission was also renewed providing a further 3 years to execute on this project. 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 largely fund the development of the new store. The existing business will be transferred to the new store when it is complete. 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.

Portfolio

These projects are part of our strategy of actively managing our operating portfolio to ensure we are maximising its value for shareholders. This includes strengthening our distinctive brand, increasing or decreasing the size and number of our stores and moving or selling stores or sites when it will increase shareholder value.

We currently own and operate 21 stores with capacity of around 1.1 million sq. ft. of storage space when fully fitted. Twelve stores are held freehold or long leasehold and nine are leasehold. One further store is run under a management contract. With Crawley, Aldershot and Maidenhead opening this coming financial year this will total 25 stores under Lok'nStore's management. With the undeveloped freehold sites at Portsmouth North Harbour, Southampton and Maidenhead total capacity of owned stores rises to around 1.2 million sq. ft. Of this 65% will be held freehold and 35% leasehold. By valuation 85% of the total property portfolio is freehold and 15% leasehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores as we have done this year at Swindon. However 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.

Property Assets and Net Asset Value

Lok'nStore's freehold and operating leasehold properties have been independently valued by C&W at £67.9 million as of 31 July 2012 (2011: £68.0 million) a decrease of 0.15%, compared to a historic cost value of £32.8 million (2011: £32.5 million). The increase in the freehold valuation not quite offsetting the amortised effect of the leasehold valuation (average lease length one year shorter compared to 2011). Property valuation is referred to further in the Financial Review and is detailed in note 11b of the notes to the financial statements. Adding our stores under development at cost, our total property valuation of £79.7 million (historic cost value £44.65 million) (2011: £79.5 million; historic cost value £44.08 million). This translates into an adjusted net asset value of £2.28 per share (2011: £2.29 per share).

The value of the freehold and operating leasehold properties of £67.9 million includes a valuation of £970,000 for the recently purchased freehold interest in our Swindon East store. Excluding the Swindon East store the total 2012 valuation of the portfolio decreased by 1.57% on a like for like basis compared to 2011.

Lok'nStore is committed to actively managing its portfolio and extracting further value from our prominently located development sites. The partnership with Lidl in Maidenhead and the Aldershot transaction both of which are expected to commence trading in 2013 demonstrate our pioneering and committed approach to funding and developing new stores. Management contracts such as Aldershot and Crawley allow the Group to continue to expand the operating footprint of Lok'nStore while minimising capital outlay.

Andrew Jacobs
Chief Executive Officer
26 October 2012

22 stores open

Financial Review

Ray Davies

"Lok'nStore is a well controlled business which generates increasing cash flow from its strong asset base."

Ray Davies, Finance Director

Trading

Total revenue for the year grew to £12.77 million (2011: £10.85 million), an increase of 18%. Operating profit for the year increased to £2.14 million, up 36% (2011: £1.57 million) and pre-tax profit for the year was £926,133 (2011: £938,280). The pre-tax profit figure was held back after taking a higher finance cost charge resulting from the refinancing.

Self storage revenue increased by 0.7% to £10.8 million (2011: £10.7 million). Self storage EBITDA, before inter-company management charges, increased by 5.3% to £3.5 million (2011 £3.3 million).

A full years contribution of document storage revenue grew to £2.0 million (2011: £0.14 million – one month only). Document storage EBITDA, before inter-company management charges, grew to £0.47 million (2011: loss £43,493 – one month only).

There is no current 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 £1.15 million.

Basic earnings per share were 2.94 pence (2011: 3.57 pence per share). Diluted earnings per share were 2.92 pence (2011: 3.54 pence per share).

New £40 million Five Year Bank Facility

The Group has signed a new five year £40 million revolving credit facility with Lloyds TSB plc underlining the strength of the cash flow and the assets of the business. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The loan bears interest at the London Inter-Bank Offer Rate (LIBOR) plus 2.35% – 2.65% margin based on the loan to value (LTV) ratio. At Lok'nStore's current LTV level this is 2.35%. The interest cover and LTV to value covenants are broadly in line with the previous facility.

Over recent years LIBOR rates have remained at very low levels. Lok'nStore has managed its debt aggressively and the average interest rate paid since July 2011 was 2.33% compared to 1.84% for the year to 31 July 2011. However since this straddles the period of the new refinancing in October the prevailing interest rate on active loans as at 31 July 2012 is 2.91%. Therefore finance costs (including amortised arrangement fees and non-utilisation

fees) for the year increased to £1,029,121 from £522,513 in 2011. Although the net interest charge in the coming year will rise to reflect a full-year charge based on the increase in the margin on this facility, nevertheless the Group's margin of 2.35% already looks very attractive against the current market, and our all-in cost of funds of around 3.34% puts us in a very strong competitive position.

Management of Interest Rate Risk

During the year LIBOR rates have been volatile and have been particularly sensitive to news flow (or lack of news flow) emanating from the EU. Following agreement of the new banking facility in October 2011, the Board's strategy has been to regularly review the Group's interest rate hedging position and to monitor prevailing LIBOR and swap rates with a view to fixing a significant proportion of its floating debt when the time was considered opportune. On 25 May 2012 the Group entered into a £10 million interest rate swap with Lloyds TSB Bank plc effective from 31 May 2012 at fixed 1 month sterling LIBOR rate of 1.2%. The swap fixes the interest rate on £10 million at an effective rate of 3.55% based on current 235 basis points (bps) margin up to the expiration of the current banking facility in October 2016. Also on 30 May 2012 the Group entered into a £10 million interest rate swap with Lloyds TSB Bank plc also effective from 31 May 2012 at fixed 1 month sterling LIBOR rate of 1.15%. Similarly this fixes a second tranche of £10 million at an effective rate of 3.5% based on current 235bps margin up to the expiration of the current banking facility in October 2016. Given the very low interest rate and the relatively small premium over our variable rate available on these swaps, the Board considered that it was a good time to lock in to these historically low interest rates. An effective interest rate of 3.525% on this portion of our debt protects our cash flow and demonstrates the Group's ability to secure market leading rates as a result of our financial strength and robust cash flow.

Lok'nStore has £29.7 million currently drawn against its £40 million revolving credit facility of which £20 million is now at a fixed interest rate. This leaves a balance of £9.7 million floating at a current all-in rate of around 2.95% and results in an overall weighted average rate of 3.34%. No arrangement fees were incurred when fixing the rates. The £20 million fixed rate is treated as an effective cash flow hedge and its fair value stated as a liability. (See note 17b.)

Operating Costs

Group operating costs (excluding cost of sales of retail products) amounted to £8.5 million for the year including a full year of post-acquisition expenses of Saracen Datastore Limited acquired on 30 June 2011. Excluding Saracen, operating costs (excluding cost of sales of retail products) amounted to £7.11 million for the year (2011: £7.17 million) a decrease of 0.8%.

Operating costs

Group	Increase in costs %	2012 £'000	2011 £'000
Property costs	13.4	**3,895**	3,434
Staff costs	19.5	**3,432**	2,871
Overheads	3.1	**1,048**	1,017
Distribution costs	993.0	**165**	15
Total	16.4	**8,540**	7,337

Lok'nStore Limited†	Increase/ (Decrease) in costs %	2012 £'000	2011 £'000
Property costs	0.5	**3,409**	3,392
Staff costs	1.2	**2,801**	2,767
Overheads	(10.5)	**902**	1,007
Distribution costs	–	**–**	–
Total	(0.8)	**7,112**	7,166

Saracen Datastore Limited	Increase in costs %*	Full year to 31 July 2012 £'000	One month ended 31 July 2011 £'000
Property costs		**486**	42
Staff costs		**631**	104
Overheads		**147**	10
Distribution costs		**165**	15
Total		**1,429**	171

* Saracen Datastore Limited comparison figures for 2011 are for a one month period only therefore no percentage increase is presented this year.
† Includes a total adjustment of (£1,503) for expenses relating to Southern Engineering and Machinery Company a wholly owned subsidiary which owns the Southampton development site.

Financial Review
continued

Cash Flow, Interest and Financing

At 31 July 2012 the Group had cash balances of £4.0 million (2011: £3.8 million). Net debt increased from £24.4 million to £25.7 million.

There was £29.7 million of gross borrowings (2011: £28.1 million) representing gearing of 66.1% on net debt of £25.7 million (2011: 62.8%). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the statement of financial position, gearing is 54.9% (2011: 52.1%). After adjusting for the deferred tax liability carried at year-end of £10.1 million gearing drops to 45.2% (2011: 42.5%).

Cash inflow from operating activities before investing and financing activities was £3.1 million (2011: £3.6 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £10.3 million (2011: £11.9 million).

From 1 August 2009 under IAS 23 ('Borrowing Costs') we are required to capitalise interest against our development pipeline in accordance with changes to 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 £11.9 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 £275,859 higher for the year (2011: £212,330) on the assumption that the £11.9 million is fully funded by borrowings.

By excluding the interest costs of carrying the development sites from the total net interest charge of £1,013,912 this means that the interest on the operating portfolio is £738,054 for the year. Funds from operations ('FFO') represented by EBITDA minus interest on the operating portfolio is therefore £3.24 million equating to 13 pence per share, up 8% on last year (2011: 12 pence per share).

The Group has grown its business through a combination of new site acquisition, existing store improvements and relocations, and has concentrated on extracting value from its existing assets and developing through collaborative projects and management contracts. Consequently, capital expenditure ('capex') during the year totalled only £1.8 million. This included some limited capex at existing stores, the purchase of the freehold interest in our Swindon East store, roof renovation with solar power at the Poole store and planning and other professional costs incurred in maximising the potential of the existing planning permissions. We also invested £0.3 million in further racking fit-out at the Saracen Olney warehouse. The Company has no further capital commitments beyond its £2.5 million development commitment at Aldershot and some minor works to existing properties.

Statement of Financial Position

Net assets at the year-end were £39.0 million (2011: £38.8 million). Freehold property values at 31 July 2012 were £56.1 million compared to £55.7 million at 31 July 2011. The total estimated final dividend to be paid in the current financial year is £999,746 (2011: £667,331) 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.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

Our twelve freehold properties are held in the statement of financial position at fair value, and have been valued externally by Cushman and Wakefield ('C&W'). Refer to note 11(b) – property, plant and equipment and also to the accounting policies for details of the fair value of trading properties. The leasehold stores are held as 'operating leases' and the valuations of these are not taken onto the statement of financial position. 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 2012 professional valuations were prepared by valuers C&W in respect of twelve freehold and seven operating leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards Global and the UK 7th 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 5.8% initially and sale plus purchaser's costs totalling 7.8% 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(b) in the notes to the financial statements for a more detailed description of the valuation methodology).

The valuation report indicates a total for properties valued of £67.9 million (NBV £32.8 million) (2011: £68.0 million: NBV £32.5 million). In relation to the existing store at Reading there is a prospect of redevelopment for residential use although it has been valued as a trading store. The valuations do not account for any further investment in existing stores since 31 July 2012. The development sites at Reading, Maidenhead, Portsmouth North Harbour and Southampton have not been valued and their asset value is stated at cost of £11.9 million which combined with the C&W valuation provides an aggregate property value of £79.7 million (2011: £79.5 million).

A 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. It is not envisaged that any tax will become payable in the foreseeable future on these disposals due to the availability of rollover relief. 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, although individual disposals may be considered where it is clear that added value can be created by recycling the capital into other opportunities.

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

Under IFRS the valuations of our freehold property assets are included in the Statement of Financial Position 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 £11.8 million (2011: £12.3 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.

Analysis of Total Property Value

	No. of stores	31 July 2012 Valuation £'000	No. of stores	31 July 2011 Valuation £'000
Freehold valued by C & W	12†	56,050	11‡	55,670
Leasehold valued by C & W	7	11,830	7	12,310
Subtotal	19	67,880	18	67,980
Sites in development at cost	4	11,850	4	11,532
Total	23	79,730	22*	79,512

* Two Leasehold stores were not valued (2011: three) as their remaining unexpired terms were insufficient to yield a value under the Cushman & Wakefield valuation methodology.
† Includes the Swindon store previously held as leasehold (not previously valued by C&W) and now owned as a freehold.
‡ Includes the current Reading store at its trading store valuation. The Reading site with planning permission for a new store is stated at cost and is included in sites in development at cost.

Financial Review
continued

Adjusted Net Asset Value per Share

Adjusted net assets per share is the net assets of the Group business adjusted for the valuation of leasehold stores and deferred tax divided by the number of shares at the year-end. The shares currently held in the Group's employee benefit trust (own shares held) and in treasury are excluded from the number of shares.

Analysis of net asset value (NAV)	31 July 2012 £'000	31 July 2011 £'000
Total non-current assets	**76,903**	76,537
Adjustment to include leasehold stores at valuation		
Add: C&W leasehold valuation*	**11,830**	12,310
Deduct: leasehold properties and their fixtures and fittings at NBV	**(3,910)**	(4,339)
	84,823	84,508
Add: current assets	**5,956**	5,710
Less: current liabilities	**(4,106)**	(32,839)
Less: non-current liabilities (excluding deferred tax provision)	**(29,223)**	(26)
Less: derivative financial instruments	**(496)**	–
	(27,869)	(27,155)
Adjusted net assets before deferred tax provision	**56,954**	57,353
Deferred tax	**(10,073)**	(10,555)
Deferred tax arising on revaluation of leasehold properties†	**(1,822)**	(1,993)
Adjusted net assets	**45,059**	44,805

Shares in issue	Number	Number
Opening shares	**26,759**	26,759
Shares issued for the exercise of options	**–**	–
Closing shares in issue	**26,759**	26,759
Shares held in treasury	**(1,142)**	(1,142)
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**24,994**	24,994
Adjusted net asset value per share after deferred tax provision	**£1.80**	£1.79
Adjusted net asset value per share before deferred tax provision	**£2.28**	£2.29

* 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 14 years and 6 months at the date of the 2012 valuation (2011 valuation: 15 years and 2 months).

† A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included. Although this is a memorandum adjustment as leasehold properties are included in the Group's financial statements at cost and not at valuation, this deferred tax adjustment is included in the adjusted net asset value calculation in order to maintain a consistency of tax treatment between freehold and leasehold properties.

Summary

Lok'nStore is a well controlled business which generates increasing cash flow from its strong asset base. Looking at interest rate risk, given the low prevailing rates and the small premium over our variable rate available on our executed swap, we felt that it is a good time to lock in to these historically low interest rates. An effective interest rate of 3.525% on this portion of our debt protects our cash flow and demonstrates our excellent relationship with our lenders and the Group's ability to secure market leading rates as a result of our financial strength and cash flow.

Ray Davies
Finance Director
26 October 2012

Board of Directors and Advisers

1.


4.


7.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5.


3.


6.


1. **Andrew Jacobs**
2. **Simon Thomas**
3. **Ray Davies**
4. **Colin Jacobs**
5. **Edward Luker**
6. **Richard Holmes**
7. **Charles Peal**

Directors and Advisers

Directors

SG Thomas
Chairman

A Jacobs
Chief Executive Officer

RA Davies
Finance Director

CM Jacobs
Director

ETD Luker
Senior Non-Executive Director

RJ Holmes
Non-Executive Director

CP Peal
Non-Executive Director

I Wright
Non-Executive Director
(Resigned 19 October 2012)

Secretary and Registered Office

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

Nominated Adviser and Broker

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Auditor

Baker Tilly UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Solicitors

Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

Registrars

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

Principal Bankers

Lloyds TSB plc
Lloyds Bank Corporate Markets
3rd Floor, 2 City Place
Beehive Ring Road
Gatwick
West Sussex RH6 0PA

Executive Directors

1. Andrew Jacobs (53)

Chief Executive Officer

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 Deputy Chairman of Trucost plc, an environmental data company.

Andrew is responsible for strategy, corporate finance and property.

2. Simon Thomas (52)

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 a Non-Executive Director of Trucost plc, an environmental data company.

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

3. Ray Davies (55)

Finance Director

Finance Director. Joined Lok'nStore in 2004. 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 London 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 (48)

Director

Director. Since founding in 1995.
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 (63)

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 Consultant and Chairman of the Investment Advisory Committee of CBRE Real Estate Finance Limited.

Edward sits on the Audit Committee and heads the Remuneration Committee.

6. Richard Holmes (52)

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 sits on the Remuneration Committee.

7. Charles Peal (57)

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 Sharia'a Umbrella Fund SICAV-SIF.

Charles heads the Audit Committee.

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 2012.

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, Operating Review, Property Review and Financial Review.

The key performance indicators are included within the Highlights on page 3 and the Financial Review.

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 16 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.

Cash deposits are placed with Lloyds TSB plc on a no-notice treasury deposit account which tracks base rate and currently yields 0.5% p.a. on all deposited balances. 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.

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. Historically, no trading in financial instruments had been undertaken but during the year the Group entered into two separate swap arrangements. Full details are set out in the Financial Review. Further information on our treasury arrangements is set out in note 16.

Risk Management

Risk management has been a fundamental part of how we have controlled the development of Lok'nStore since its formation. We maintain a risk register which identifies and categorises our risks and provides an assessment of risk based on a combination of 'likelihood' and 'consequences and impact' on the business. This is reviewed regularly by 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 review and monitor the underlying risk elements relevant to the business.

Market Risk

Self storage is a developing market 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 awareness 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 criteria for site selection 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 customers who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Our self storage customers are a broad mix of both domestic and business, generating around 62%:38% respectively of our revenue (2011: 64%:36%).

* 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 hotels, car showrooms and offices as well as from the other self storage operators.

The process of gaining planning permissions remains challenging. Lok'nStore may take on the risk of obtaining planning permission when acquiring sites in the face of competitive bids. In these cases we are obliged to undertake the planning, environmental and other property due diligence under tight timescales which creates greater risk in the process.

Nevertheless 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. The building of each store 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 fitting of mezzanine floors and steel units is generally project managed in-house using an established external professional team of sub-contractors who understand Lok'nStore's particular specifications.

Credit Risk

Lok'nStore's self storage credit 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 their unpaid bills. Credit control remains tight with £58,410 of bad debts written off during the year representing around 0.46% of revenue (2011: 0.35%). There was £6,170 of additional costs associated with recovery (2011: £4,091). Given the tight credit conditions in the wider economy our own credit control indicators are resilient, showing no appreciable signs of weakening during the year with the number of late letters issued declining year-on-year and bad debts remaining at low levels.

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 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.

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 www.loknstore.com and www.saracendatastore.co.uk) are important avenues of communication and a source of information for employees, customers and investors. Employee communication is augmented by quarterly staff newsletters.

Dividend

In respect of the current year, the Directors propose that a final dividend of 4.00 pence per share will be paid to the shareholders on 17 December 2012 to shareholders on the register on 16 November 2012. The total estimated dividend to be paid is £999,746 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.

Events after the Reporting Date

Events after the reporting date are fully described in Note 29.

Directors

The following Directors held office during the year and subsequently:

SG Thomas	ETD Luker
A Jacobs	RJ Holmes
RA Davies	CP Peal
CM Jacobs	I Wright (Resigned 19 October 2012)

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

Biographical details of the Directors are set out on page 23.

Reappointment of Directors

In accordance with the Company's Articles of Association, Colin Jacobs and Edward Luker retire by rotation and each being eligible offer themselves for re-election at the next Annual General Meeting (AGM). Richard Holmes who has over nine year's tenure as a non-executive is now required under the Companies Act 2006 to offer himself for re-election at every Annual General Meeting and accordingly offers himself for election at the next AGM.

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 2012	31 July 2011
SG Thomas	**2,106,385**	2,147,500
A Jacobs	**5,314,000**	5,314,000
RA Davies	**41,099**	40,000
CM Jacobs	**–**	–
RJ Holmes	**149,000**	134,000
ETD Luker	**13,800**	13,800
CP Peal	**185,000**	125,000
I Wright	**–**	–

Andrew Jacobs is a beneficiary of 'The Jacobs Family Directors Pension Scheme' that holds 310,350 (2011: 310,350) Ordinary Shares and Simon Thomas is a beneficiary of a pension fund 'The Thomas Family Directors Pension Scheme' that holds 231,190 (2011: 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 (2011: 20,000) Ordinary Shares representing less than 0.1% of the issued share capital. Colin Jacobs, a Director of Lok'nStore is interested in this transaction as one of the beneficiaries of the Aylestone Pension Fund.

Details of Directors' share options are disclosed in notes 20, 21, 22 and 23.

Directors' and Officers' Liability Insurance

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

Directors' Report

continued

Substantial Shareholdings

The Directors have been notified or are aware that the following are interested in 3% or more of the issued Ordinary Share capital of the Company as at 18 October 2012:

	Current rank	Number of shares	% at 12 September 2012	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	2,106,385	8.22	
Artemis Investment Management	4	1,135,000	4.43	
Charles Stanley Stockbrokers	5	905,992	3.54	
Goldman Sachs	6	896,071	3.50	
				25,616,865

Policy on Payment of Suppliers

The Group 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 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 69 days (2011: 67 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 2012 are shown in note 11 to the Financial Statements. Further commentary on the property portfolio is contained in the Property Review and in the Financial Review.

Environment

Environmental Policy

Our Environmental Policy is to effectively 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 Group has been measuring its environmental impacts for the last eight years. Monitoring focuses on environmental key performance indicators (KPIs), namely greenhouse gas emissions (GHG), water use and waste.

Highlights for year ending 31 July 2012:

- Indirect GHG emissions intensity now down 81% since 2005.
- Total waste sent to landfill reduced for eighth successive year, now just a quarter of 2005 levels.
- Total water use again reduced, now halved from 2005 levels with intensity down by 70%.

Direct GHG emissions

This is the first full year report since the acquisition of the Saracen records management subsidiary. The acquisition has lifted the Group's revenue, and inevitably increased some environmental impacts. Saracen's business is serviced storage so the Company is responsible for the transportation impact, thereby lifting emissions from vans and cars on Company operations. These increased from 79 to 202 tonnes of carbon dioxide equivalents (CO_2e) due to the document delivery and collection service now offered. However, like-for-like comparison in Lok'nStore Limited's self storage business shows a reduction of 10% from 79 to 71 CO_2e tonnes.

Emissions from gas boilers rose in absolute terms from 63 to 65 CO_2e tonnes, but normalised to turnover reduce from 6 to 5 CO_2e tonnes per £m turnover.

Overall, after last year's decrease to 142 CO_2e tonnes, the Group's carbon footprint has risen to 267 CO_2e tonnes. Normalised to turnover, direct GHG emissions rose from 13 to 21 CO_2e tonnes per £m.

Indirect GHG emissions (electricity)

For the fourth year running all of Lok'nStore Limited's electricity was supplied by Green Energy plc.

In the course of the year, we have agreed that 100% of the electricity supplied to Lok'nStore Limited by Green Energy will be from renewable sources. That change effectively eliminates Lok'nStore Limited's indirect emissions from electricity consumption. For continuity of reporting however, this year we retain the policy of reporting emissions using the fuel mix of the supplier overall. On that measure, we are pleased to report that the Group's indirect GHG emissions have again reduced on a normalised basis, and now stand 81% below 2005 levels.

Latest available figures from Green Energy show it acquired 36% of its supply from renewable sources and the remaining 64% from combined heat and power (CHP) accredited generators. Accordingly the Group's emissions from electricity have risen by 14% from 2011, in large part due to acquisition of Saracen. Absolute GHG emissions rose from 288 to 328 CO_2e tonnes. Nevertheless, normalised to turnover, the impact reduced from 27 to 26 CO_2e tonnes per £m turnover.

In the course of significant refurbishment at the Poole store this year, a solar panel array was successfully fitted on the new roof. During the reporting period, the system generated 37MWh of electricity. Of this the bulk was used on site, providing 30% of the store's annual electricity needs, with a balance of 5 megawatts (MWh) exported back to the grid.

Figure 1: GHG emissions from electricity consumption

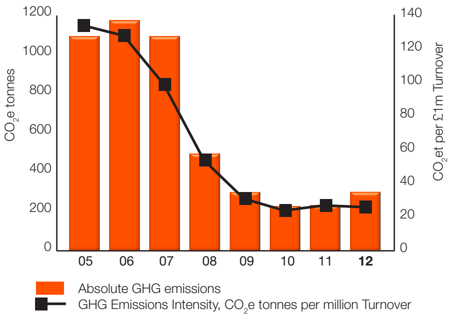

Figure 2: Landfill waste

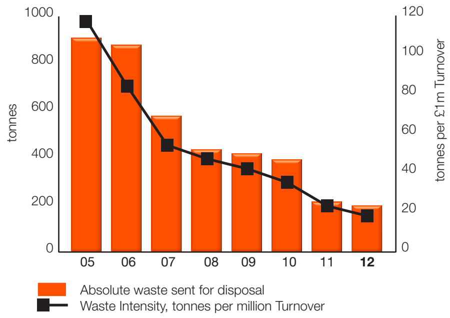

Figure 3: Water use

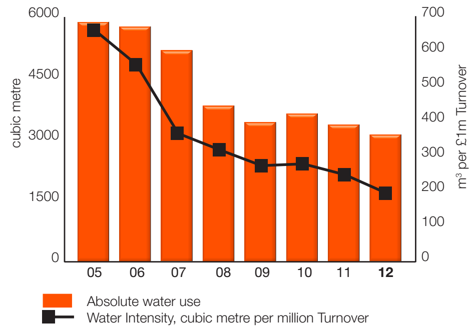

Figure 1 shows absolute and normalised GHG emissions from electricity consumption over the last eight years.

Waste generation and recycling

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

For the eighth successive year Lok'nStore reduced the quantity of waste produced. Total waste sent to landfill and recycled fell from 475 tonnes to 452 tonnes, a reduction in the total waste generated of 5%. The proportion of waste recycled has stayed constant at 49%.

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

Figure 2 shows absolute and normalised landfill waste produced over the last eight years.

With the acquisition of Saracen, the Group has also begun to monitor its contracted waste produced (i.e. consumer waste sent to Saracen for disposal). In 2012, Saracen recycled 122 tonnes of shredded paper on behalf of its customers. It also sent small quantities of microfiche and computer hardware for specialist disposal, but these amounts are negligible.

Water consumption

In 2012 we consumed 2,506 m^3 of water, which is 155 m^3 less than in the previous year and amounts to a 6% decrease. This reduction has been realised as a result of performance monitoring and rectification works where required. The Group will continue to look for opportunities to reduce water losses and wastage.

Figure 3 shows absolute and normalised water use over the last eight years.

Direct Impacts (Operational)

			Quantity			
			Absolute tonnes CO_2e		Normalised* tonnes CO_2e per £m turnover	
Greenhouse Gases	Definition	Data source & Calculation Methods	2011	2012	2011	2012
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	63	65	6	5
Vehicle Fuel	Petrol and diesel used by staff.	Expense claims & MOT recorded mileage, converted according to Defra Guidelines.	79	202	7	16
Total			142	267	13	21
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O).	Calculated according to Defra Guidelines.	142	267	13	21

			Quantity			
			Absolute tonnes		Normalised* tonnes per £m turnover	
Waste	Definition	Data source & Calculation Methods	2011	2012	2011	2012
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.	242	230	23	18
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.	233	223	22	17

* Normalised based on annual revenue for the respective years.

Directors' Report
continued

Indirect Impacts (Supply Chain)

			Quantity			
			Absolute tonnes CO_2e		Normalised* tonnes CO_2e per £m turnover	
Greenhouse Gases	Definition	Data source & Calculation Methods	2011	2012	2011	2012
Energy use	Directly purchased electricity, which generates Greenhouse Gases including CO_2 emissions.	Yearly consumption of directly purchased electricity in kWh, converted according to supplier's fuel mix.	288	328	27	26

			Quantity			
			Absolute m^3		Normalised* tonnes per £m turnover	
Waste	Definition	Data source & Calculation Methods	2011	2012	2011	2012
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	2,661	2506	249	196

Indirect Impacts (Downstream)

			Quantity			
			Absolute tonnes CO_2e		Normalised* tonnes CO_2e per £m turnover	
Greenhouse Gases	Definition	Data source & Calculation Methods	2011	2012	2011	2012
Vehicle Fuel	Petrol and diesel used by customers in van hire fleet.	Recorded mileage, converted according to Defra Guidelines.	55	51	5	4
Total Greenhouse Gases	Includes Carbon Dioxide (CO_2), Methane (CH_4) and Nitrous Oxide (N_2O).	Calculated according to Defra Guidelines.	55	51	5	4

* Normalised based on annual revenue for the respective years.

The above information is based on UK Government Environmental Key Performance Indicators: Reporting Guidelines for UK Business (2006). Figures are rounded up.

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 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.

Employee Benefit Trust

The Employee Benefit Trust owns 623,212 shares (2011: 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 2012 these treasury shares represent 4.27% of the Company's issued share capital (2011: 4.27%). The total number of Ordinary Shares in issue is 26,758,865 (2011: 26,758,865).

Share Buy-back Authority

Authority will be sought at the Company's AGM on 30 November 2012 from shareholders to approve a share buy-back 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.

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 30 November 2012 at 11.00 am at the offices of Maclay Murray Spens LLP, 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
26 October 2012

Corporate Governance

Introduction

The UK Corporate Governance 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 save for Richard Holmes who by virtue of over nine years tenure as a Non-Executive is not considered to be independent. 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 Chairman is not independent as he is a substantial shareholder of the Company and was formerly the Chief Executive.

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 is 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. Richard Holmes who has over nine years tenure as a Non-Executive is now required under the Companies Act 2006 to offer himself for re-election at every Annual General Meeting and accordingly offers himself for election at the next AGM.

Directors' Remuneration

The Remuneration Committee consists of Edward Luker (Chairman of the Committee) and Richard Holmes. Edward Luker replaced Richard Holmes as Chairman during the year. 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 to the financial statements.

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

Shareholders' Relations

The Board has always sought good relations with the Company's shareholders. Since last year the Company has written to all shareholders on five occasions: in January 2012, (AGM Business and Strategy); March 2012, (New Website); April 2012, (Interim results) and June 2012, (Update on strategic and operational progress) and finally in August 2012 (Outlook and Dividend policy). 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. At the AGM the Board give a slide presentation of events and progress during the year and Directors are individually introduced to shareholders at the Meeting. Attendee shareholders are encouraged to mix and engage with the Directors after the formal business of the AGM has concluded.

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 Review 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, internal 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 Group cash balances of £4.0 million, (2011: £3.8 million) undrawn committed facilities at 31 July 2012 of £10.3 million and cash generated from operations in the year to 31 July 2012 of £3.1 million (2011: £3.6 million). During the year the Group signed a new five year £40 million revolving credit facility with Lloyds TSB plc underlining the strength of the cash flow and the assets of the business. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Audit Committee

The Company has an established Audit Committee, to whom the external Auditor, Baker Tilly UK Audit LLP, reports. The Committee consists of Charles Peal (Chairman of the Committee) and Edward Luker. It is responsible for the relationship with the Group's external Auditor and the review of the Group's financial reporting and internal controls.

The Committee meets a minimum of twice a year, prior to the announcement of interim and annual results to consider the Auditors' Findings Report and consider any corresponding recommendations, and would, should it be necessary, 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 Committee 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 UK Corporate Governance Code as well as the Group'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.

On behalf of the Board

Simon G Thomas
Chairman
26 October 2012

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 as 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:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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.

Financial Index

Contents

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 35 to 77. 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 Auditor

As more fully explained in the Directors' Responsibilities Statement on page 32, 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 and express an opinion on 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/private.cfm.

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 2012 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
25 Farringdon Street
EC4A 4AB

26 October 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2012

	Notes	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Revenue	1a	**12,765**	10,846
Cost of sales of retail products	2a	**(251)**	(228)
Property and premises costs	2b	**(3,895)**	(3,435)
Staff costs	2b	**(3,432)**	(2,885)
General overheads	2b	**(1,048)**	(1,017)
Distribution	2b	**(165)**	–
Total costs		**(8,791)**	(7,565)
EBITDA†		**3,974**	3,281
Amortisation of intangible assets		**(165)**	–
Depreciation based on historic cost		**(1,304)**	(1,354)
Additional depreciation based on revalued assets		**(273)**	(262)
		(1,742)	(1,616)
Loss on sale of motor vehicles		**(4)**	–
Equity settled share based payments	20	**(92)**	(100)
		(1,838)	(1,716)
Operating profit†		**2,136**	1,566
Professional and related costs – management contract set-up	2c	**(196)**	–
Professional costs – acquisition of Saracen Datastore Limited	2c	**–**	(129)
Profit before interest		**1,940**	1,437
Finance income	3	**15**	24
Finance cost	4	**(1,029)**	(523)
Profit before taxation	5	**926**	938
Income tax expense	7	**(155)**	(52)
Profit for the financial year		**771**	886
Profit attributable to:			
Owners of the parent	25	**753**	892
Non-controlling interest		**18**	(6)
		771	886
Other Comprehensive Income			
Increase/(decrease) in property valuation		**48**	(2,494)
Deferred tax relating to decrease in property valuation		**523**	1,216
Decrease in fair value of cash flow hedges		**(496)**	–
Deferred tax relating to cash flow hedges		**114**	–
Other comprehensive income		**189**	(1,278)
Total comprehensive income for the year		**960**	392
Attributable to:			
Owners of the parent		**942**	(386)
Non-controlling interest		**18**	(6)
		960	(392)
Earnings per share			
Basic	9	**3.01p**	3.57p
Diluted	9	**2.99p**	3.54p

* 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 2012

	Share capital £'000	Share premium £'000	Other reserves £'000	Revaluation reserve £'000	Retained earnings £'000	Attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
1 August 2010	**268**	**698**	**13,009**	**21,635**	**3,498**	**39,108**	**–**	**39,108**
Profit/(loss) for the year	–	–	–	–	893	893	(6)	**887**
Other comprehensive income:								
Decrease in property valuation	–	–	–	(2,494)	–	(2,494)	–	**(2,494)**
Deferred tax relating to decrease in property valuation	–	–	–	1,216	–	1,216	–	**1,216**
Other comprehensive income	–	–	–	(1,278)	–	(1,278)	–	**(1,278)**
Total comprehensive income	–	–	–	(1,278)	893	(385)	(6)	**(391)**
Transactions with owners:								
Non-controlling interest arising on acquisition of subsidiary	–	–	–	–	–	–	260	**260**
Dividend paid	–	–	(250)	–	–	(250)	–	**(250)**
	–	–	(250)	–	–	(250)	260	**10**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(196)	196	–	–	**–**
Equity-settled share-based payments	–	–	99	–	–	99	–	**99**
31 July 2011	**268**	**698**	**12,858**	**20,161**	**4,587**	**38,572**	**254**	**38,826**
Profit for the year	–	–	–	–	753	753	18	**771**
Other comprehensive income:								
Increase in property valuation	–	–	–	48	–	48	–	**48**
Deferred tax relating to increase in property valuation	–	–	–	523	–	523	–	**523**
Decrease in fair value of cash flow hedges	–	–	(496)	–	–	(496)	–	**(496)**
Deferred tax relating to cash flow hedges	–	–	114	–	–	114	–	**114**
Other comprehensive income	–	–	(382)	571	–	189	–	**189**
Total comprehensive income	–	–	(382)	571	753	942	18	**960**
Transactions with owners:								
Dividend paid	–	–	(917)	–	–	(917)	–	**(917)**
	–	–	(917)	–	–	(917)	–	**(917)**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(205)	205	–	–	**–**
Equity-settled share-based payments	–	–	92	–	–	92	–	**92**
31 July 2012	**268**	**698**	**11,651**	**20,527**	**5,545**	**38,689**	**272**	**38,961**

Company Statement of Changes in Equity

For the year ended 31 July 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total £'000
1 August 2010	**268**	**698**	**(169)**	**6,714**	**7,511**
Loss for the year	**–**	**–**	**(169)**	**–**	**(169)**
Dividend paid	–	–	–	(250)	(250)
Total transactions with owners	–	–	–	(250)	(250)
Equity-settled share-based payments	–	–	–	99	99
31 July 2011	**268**	**698**	**(338)**	**6,563**	**7,191**
Loss for the year	**–**	**–**	**(194)**	**–**	**(194)**
Dividend paid	–	–	–	(917)	(917)
Equity-settled share-based payments	–	–	–	92	92
31 July 2012	**268**	**698**	**(532)**	**5,738**	**6,172**

Statements of Financial Position

31 July 2012

Company Registration No. 4007169

	Notes	Group 31 July 2012 £'000	Group 31 July 2011 £'000	Company 31 July 2012 £'000	Company 31 July 2011 £'000
Assets					
Non-current assets					
Intangible assets	11a	4,253	4,419	–	–
Property, plant and equipment	11b	69,470	69,174	–	–
Property lease premiums	11c	3,180	2,944	–	–
Investments	12	–	–	1,682	1,590
Amounts due from subsidiary undertakings	30	–	–	4,490	5,601
		76,903	76,537	6,172	7,191
Current assets					
Inventories	13	140	110	–	–
Trade and other receivables	14	1,855	1,821	–	–
Cash and cash equivalents		3,961	3,779	–	–
		5,956	5,710	–	–
Total assets		82,859	82,247	6,172	7,191
Liabilities					
Current liabilities					
Trade and other payables	15	(4,084)	(4,656)	–	–
Current tax liabilities	7	–	(60)	–	–
Borrowings	17a	(22)	(28,124)	–	–
		(4,106)	(32,840)	–	–
Non-current liabilities					
Borrowings	17a	(29,223)	(26)	–	–
Derivative financial instruments	17b	(496)	–	–	–
Deferred tax	18	(10,073)	(10,555)	–	–
		(39,792)	(10,581)	–	–
Total liabilities		(43,898)	(43,421)	–	–
Net assets		38,961	38,826	6,172	7,191
Equity					
Equity attributable to owners of the parent					
Called up share capital	19	268	268	268	268
Share premium		698	698	698	698
Other reserves	24	11,651	12,858	5,738	6,563
Retained earnings/(deficit)	25	5,545	4,587	(532)	(338)
Revaluation reserve		20,527	20,161	–	–
Total equity attributable to owners of the parent		38,689	38,572	6,172	7,191
Non-controlling interests		272	254	–	–
Total equity		38,961	38,826	6,172	7,191

Approved by the Board of Directors and authorised for issue on 26 October 2012 and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Consolidated Statement of Cash Flows

For the year ended 31 July 2012

	Notes	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Operating activities			
Cash generated from operations	27a	3,143	3,600
Net cash from operating activities		3,143	3,600
Investing activities			
Purchase of property, plant and equipment and property lease premiums		(2,074)	(787)
Acquisition of subsidiary (net of cash acquired)	10	–	(3,563)
Proceeds from disposal of property, plant and equipment		10	–
Interest received		15	24
Net cash used in investing activities		(2,049)	(4,326)
Financing activities			
Proceeds from new borrowings		29,681	–
Repayment of borrowings		(28,195)	–
Arrangement fees – refinancing of Group revolving credit facility		(555)	–
Repayment of borrowings – subsidiary bank loan		–	(39)
Finance costs paid		(926)	(570)
Equity dividends paid		(917)	(250)
Net cash used in financing activities		(912)	(859)
Net increase/(decrease) in cash and cash equivalents in the year		182	(1,585)
Cash and cash equivalents at beginning of the year		3,779	5,364
Cash and cash equivalents at end of the year		3,961	3,779

No statement of cash flows 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 England and Wales. 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.com.

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 2011.

The financial statements have been prepared on the historic cost basis except that certain trading properties and derivative financial instruments are stated at fair value.

Adoption of new and revised standards

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:

IAS 1	Presentation of financial statements – Amendment; Presentation of items of other comprehensive income. Effective for accounting periods commencing on or after 1 July 2012.
IAS 19	Employee benefits – Amendments; Effective for accounting periods commencing on or after 1 January 2013.
IAS 12*	Income Taxes – Amendment; Deferred Tax; Recovery of Underlying Assets; Effective for accounting periods commencing on or after 1 January 2012.
IAS 27*	Separate Financial Statements (amended 2011). Effective for accounting periods commencing on or after 1 January 2013.
IAS 28*	Investments in associates and Joint ventures (amended 2011). Effective for accounting periods commencing on or after 1 January 2013.
IFRS 1*	First-time adoption of IFRS – Amendments; Effective for accounting periods commencing on or after 1 January 2013.
IFRS 7*	Financial Instruments: Disclosures – Amendment; Offsetting Financial Assets and Financial Liabilities; Effective for accounting periods commencing on or after 1 July 2011. Effective for accounting periods commencing on or after 1 January 2013.
IFRS 9*	Financial Instruments. Effective for accounting periods commencing on or after 1 January 2015.
IFRS 10*	Consolidated Financial Statements. Effective accounting periods commencing on or after 1 January 2013.
IFRS 11*	Joint Arrangements. Effective accounting periods commencing on or after 1 January 2013.
IFRS 12*	Disclosure of Interests in Other Entities. Effective accounting periods commencing on or after 1 January 2013.
IFRS 13*	Fair Value Measurement. Effective accounting periods commencing on or after 1 January 2013.
IAS 32	Financial Instruments – Presentation – Amendment; Offsetting Financial assets and Financial Liabilities. Effective for accounting periods commencing on or after 1 January 2014.

* Not yet endorsed by the EU.

The Directors do not anticipate that the adoption of these Standards will have a significant impact on the financial statements of the Group.

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

Basis of consolidation

Intra-Group transactions, balances, and unrealised gains and losses on transactions between Group companies are eliminated on consolidation, except to the extent that intra-Group losses indicate an impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previous interest in the acquired entity over the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset.

Any deficiency of the consideration transferred, the amount of any non-controlling interest and the fair value of any previous interest in the acquired entity below the fair value of identifiable assets and liabilities of a subsidiary (i.e. discount on acquisition) is recognised directly in profit or loss.

Goodwill is 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 subsequent periods.

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.

When determining whether goodwill is impaired the carrying value of the cash generating unit is adjusted to include the goodwill attributable to the non-controlling interest when the non-controlling interest has been measured as a proportionate share of the net identifiable assets of the subsidiary.

Non-controlling interests

Non-controlling interests are measured at the proportionate share of the non-controlling interest's identifiable net assets in the relevant subsidiary.

Profit or loss and each component of other comprehensive income are allocated between the owners of the parent and non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Any differences between the adjustment to the non-controlling interest and the fair value of consideration paid or received are recognised in equity.

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 Group cash balances and cash equivalents of £4.0 million (2011: £3.8 million), and undrawn committed bank facilities at 31 July 2012 of £10.3 million (2011: £11.9 million), and cash generated from operations in the year to 31 July 2012 of £3.1 million (2011: £3.6 million). During the year the Group signed a new five year £40 million revolving credit facility with Lloyds TSB plc. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for goods and services provided in the ordinary course of the Group's activities, net of discount, VAT and after eliminating sales within the Group.

The Group recognises revenue when the amount of the revenue can be reliably measured and when goods are sold and title has passed. Revenue from services provided is recognised evenly over the period in which the services are provided.

a. Self storage revenue

Self storage services are provided on a time basis. The price at which customers store their goods is dependent on size of unit and store location. Customers are invoiced on a four-weekly cycle in advance and revenue is recognised based on time stored to date within the cycle. When customers vacate they are rebated the unexpired portion of their four weekly advance payment (subject to a seven day notice requirement).

b. Retail sales

The Group operates a 'pack shop' within each of its storage centres for selling storage related goods such as boxes, tape and bubble-wrap. Sales include sales to the public at large as well as self storage customers. Sales of goods are recognised at point of sale when the product is sold to a customer.

c. Insurance

Customers may choose to insure their goods in storage. The weekly rate of insurance charged to customers is calculated based on the tariff per week for each £1,000 worth of goods stored by the customer. This charge is retained by Lok'nStore and covers the cost of the block policy and other costs. Customers are invoiced on a four-weekly basis for the insurance cover they use and revenue is recognised based on time stored to date within the cycle.

d. Van hire

The utilisation of vans and their hire to customers is solely to promote and encourage prospective customers to use our self storage centres and to facilitate their moves as efficiently as possible. Vans are hired out typically for a day and only to Lok'nStore customers and are not hired out to the general public at large. Revenue is recognised at the point of hire when the deposit is taken.

e. Management fee income

Management fees earned for managing stores not owned by the Group are recognised over the period for which the services are provided.

f. Serviced archive and records management

Customers are invoiced typically monthly in advance for the archive storage of their boxes, tapes and files and revenue is recognised based on time stored to date within the monthly cycle. In respect of the provision of additional services, such as document box or tape collection and retrieval from archive, customers are invoiced typically monthly in arrears and revenue is recognised in line with the provision of these services.

Segmental information

In accordance with the requirements of IFRS 8 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. Historically, there has been one business segment as the Group's net assets, revenue and profit before tax were attributable to one principal activity operating under one unified business, being the provision of self storage accommodation and related services. These all arise in the United Kingdom.

Following the acquisition of Saracen Datastore Limited on 30 June 2011 the Group is now also involved in offsite records storage and document and tape archiving. Financial information is reported to the Board with revenue and profit analysed between self storage activity and serviced archive and records management activity.

Accounting Policies

continued

EBITDA

Earnings before interest, tax, depreciation and amortisation ('EBITDA'), is defined as profits from operations before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, acquisition and other non-recurring set-up costs, finance income, finance 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 profit after all costs except acquisition and other non-recurring set-up costs, finance income, finance 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 reporting 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 can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting 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 reporting 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 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 statement of financial position. 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 IFRS 2 – Share-based payments to exclude share options granted before 7 November 2002 (15,000 options).

Property lease premiums

Costs relating to the acquisition of long leases are classified as a non-current asset in the statement of financial position. Costs may include lease premiums paid on entering such a lease and other related costs.

Property, plant and equipment

Freehold properties and long leasehold properties (classified as finance leases) are measured at fair value. A comprehensive external valuation is performed at each reporting date.

Short leasehold improvements, fixtures, fittings and equipment, and motor vehicles are carried 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 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.

Intangible assets (other than goodwill)

Customer relationships acquired in a business combination are measured initially at fair value and are subsequently amortised on a straight-line basis over their estimated useful lives (20 years).

Impairment of property, plant and equipment and intangible assets (other than goodwill)

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets 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 in the Parent Company's statement of financial position. 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 when the Group becomes a party to the contractual provision of the instrument.

Bank borrowings and finance costs

Interest-bearing bank loans are recorded at the proceeds received net of direct issue costs. Issue costs are amortised against the carrying value amount of the loan over the period of the loan with the cost recognised in profit and loss as part of finance costs.

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.

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 in the current year or in prior years.

Derivative financial instruments and hedge accounting

The Group's activities expose it to interest rate risk. The Group uses interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative or for any other purposes.

The use of financial derivatives is governed by the Group's policies as approved by the Board of Directors. The Group documents its risk management objectives and strategy for undertaking hedging transactions within the Group's Risk Register. The Group also documents its assessment both at hedge inception and on an on-going basis to assess whether the derivatives that are used are effective in offsetting changes in fair value or cash flows of the hedged items.

Derivative financial instruments are measured at fair value and the fair values of the hedged derivative instruments are disclosed in note 17b. Movements on the hedging reserve in other comprehensive income are shown in note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item has more than 12 months to run, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Instruments quoted in an active market are measured at their current bid price. For instruments that are not quoted in an active market, the fair value is estimated using a valuation technique. Techniques that are used by the Group include comparisons to recent market transactions or reference to other instruments which are substantially the same, discounted cash flow analysis and option pricing models. Inputs to such techniques rely on market inputs where such information is readily available. Where such information is not available entity-specific inputs are used.

Accounting Policies

continued

Cash flow hedges

Hedges of exposures to variable cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss are accounted for as cash flow hedges when the hedging criteria has been achieved. The Group uses cash flow hedges to account for the hedging of variable rate borrowings. The effective portion of changes in the fair value is recognised in other comprehensive income whilst the gain or loss on the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods when the hedged item affects profit or loss. However when a forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred into other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset.

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.

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.

Impairment of financial assets

Financial assets are assessed for indications of impairment at each reporting 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.

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 current and projected 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 11b. The carrying value of freehold properties held at valuation at the reporting date was £56.1 million (2011: £55.7 million) as shown in the table on page 19.

Cushman & Wakefield's ('C&W's') valuation report comments on valuation uncertainty resulting from the global banking crisis coupled with the economic downturn which has resulted in there being 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. 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 statement of financial position 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 comparison 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, and revised construction costs or capacity of the new facility, for example, to make an assessment of the recoverable amount of the development property. The Group reviews all development property assets for impairment at each reporting date in the light of the results of these reviews. Once a store is opened, it is valued as a trading store.

The Group holds planning permissions on its entire pipeline of sites as a result of the 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 examine whether 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 reporting date was £11.9 million (2011: £11.5 million) of which £3.18 million (2011: £2.94 million) relating to the long lease at Maidenhead is classified as a property lease premium and is shown separately in the statement of financial position.

c. Estimate of fair value of intangible assets acquired in business combination

The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives important to the Group's financial position and performance. At 31 July 2012 intangible assets, excluding goodwill, amounted to £3.1 million (2011: £3.3m).

The valuation method used and key assumptions are described in note 11b.

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The estimated useful life of customer relationships of 20 years principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. Typically, the customer base for a serviced archive business is relatively inert. Corporate customers do not tend to switch service providers and indeed they incur box withdrawal charges should they do so. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

d. 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 surveyors' 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 reporting date was £nil (2011: £nil).

Notes to the Financial Statements continued

For the year ended 31 July 2012

1a Revenue

Analysis of the Group's revenue is shown below:

Stores trading	2012 £'000	2011 £'000
Self storage revenue	9,550	9,523
Other storage related revenue	1,111	1,060
Ancillary store rental revenue	5	5
Management fees	20	21
Sub-total	10,686	10,609
Stores under development		
Non-storage income	88	93
Sub-total	10,774	10,702
Serviced archive and records management revenue	1,991	144
Total revenue per statement of comprehensive income	12,765	10,846

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. Historically, there has been one business segment as the Group's net assets, revenue and profit before tax were attributable to one principal activity, the provision of self storage accommodation and related services.

Following the purchase of Saracen Datastore Limited on 30 June 2011, the Group also provides offsite records storage and document and tape archiving services. The acquisition broadens the offering to clients and is seen as an excellent entry point to a wide market segment complimenting Lok'nStore's existing self storage activities.

All of the Group's activities occur in the United Kingdom.

Financial information is reported to the Board with revenue and profit analysed between self storage activity and serviced archive and records management activity.

Segment revenue comprises of sales to external customers and excludes gains arising on the disposal of assets and finance income. Segment profit reported to the Board represents the profit earned by each segment before acquisition costs and other non-recurring set-up costs, finance income, finance costs and tax. For the purposes of assessing segment performance and for determining the allocation of resources between segments, the Board uses a measure of adjusted EBITDA (as defined in the accounting policies) and reviews the non-current assets attributable to each segment as well as the financial resources available. All assets are allocated to reportable segments. Assets that are used jointly by segments are allocated to the individual segments on a basis of revenues earned. All liabilities are allocated to individual segments other than borrowings and tax. Information is reported to the Board of Directors on a product basis as management believe that the activity of self storage and the activity of serviced archive and records management expose the Group to differing levels of risk and rewards due to the length, nature, seasonality and customer base of their respective operating cycles.

1b Segmental information continued

The segment information for the year ended 31 July 2012 is as follows:

2012

	Self storage 2012 £'000	Serviced archive & records management 2012 £'000	**Total 2012 £'000**
Revenue from external customers	10,774	1,991	**12,765**
EBITDA	3,500	474	**3,974**
Management charges	185	(185)	**–**
Adjusted EBITDA	3,685	289	**3,974**
Depreciation	(1,498)	(79)	**(1,577)**
Amortisation of intangible assets	–	(165)	**(165)**
Loss on disposal – motor vehicles	(4)	–	**(4)**
Equity settled share based payments	(92)	–	**(92)**
Segment profit	2,091	45	**2,136**
Central costs not allocated to segments:			
Professional fees – management contract set-up			**(196)**
Finance income			**15**
Finance costs			**(1,029)**
Profit before taxation			**926**
Income tax expense			**(155)**
Consolidated profit for the financial year			**771**

2011

	Self storage 2011 £'000	Serviced archive & records management 2011 £'000	**Total 2011 £'000**
Revenue from external customers	10,702	144	**10,846**
Adjusted EBITDA	3,325	(44)	**3,281**
Depreciation	(1,609)	(7)	**(1,616)**
Equity settled share based payments	(100)	–	**(100)**
Segment profit	1,616	(51)	**1,565**
Central costs not allocated to segments:			
Professional fees – acquisition of Saracen Datastore Limited			**(129)**
Finance income			**24**
Finance costs			**(522)**
Profit before taxation			**938**
Income tax expense			**(52)**
Consolidated profit for the financial year			**886**

Corporate transactions and the treasury function are managed centrally and therefore are not allocated to segments. Sales between segments are carried out at arm's length. The serviced archive segment with over 330 customers has a greater customer concentration with its ten largest corporate customers accounting for 39% (2011: 40%) of revenue its top 50 accounting for 68.8% (2011: 71.1%) and its top 100 accounting for 84.0% (2011: 75.7%) of revenue. The self storage segment with over 6,700 customers has no individual self storage customer accounting for more than 1% of total revenue and no group of entities under common control (e.g. Government) accounts for more than 10% of total revenues.

Notes to the Financial Statements continued

For the year ended 31 July 2012

1b Segmental information continued

2012

	Self storage 2012 £'000	Serviced archive & records management 2012 £'000	**Total 2012 £'000**
Segment and total assets	77,065	5,794	**82,859**
Segment liabilities	(13,089)	(1,068)	**(14,157)**
Borrowings (not allocated to segments)			**(29,245)**
Derivative financial instruments (not allocated to segments)			**(496)**
Total liabilities			**(43,898)**
Capital expenditure	1,465	374	**1,839**

2011

	Self storage 2011 £'000	Serviced archive & records management 2011 £'000	**Total 2011 £'000**
Segment and total assets	77,153	5,094	**82,247**
Segment liabilities	(14,504)	(767)	**(15,271)**
Borrowings (not allocated to segments)			**(28,150)**
Total liabilities			**(43,421)**
Capital expenditure	674	29	**703**

The amounts presented to the Board with respect to total assets and total liabilities are measured in a manner consistent with the financial statements and are allocated based on the operations of the segment. Borrowings are managed centrally on a Group basis and are therefore not allocated to segments.

2a Cost of sales of retail products

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.

	2012 £'000	2011 £'000
Retail	**103**	133
Insurance	**21**	22
Van hire	**35**	56
Other	**3**	–
	162	211
Serviced archive consumables and direct costs	**89**	17
	251	228

2b Other costs

	2012 £'000	2011 £'000
Property and premises costs	**3,895**	3,435
Staff costs	**3,432**	2,885
General overheads	**1,048**	1,017
Distribution costs	**165**	–
	8,540	7,337

2c Professional fees and associated costs

	2012 £'000	2011 £'000
Legal fees and associated costs – management contract setup costs	**196**	–
Legal and professional fees – acquisition of Saracen Datastore Limited	**–**	129
	196	129

3 Finance income

	2012 £'000	2011 £'000
Bank interest	**15**	24

All interest receivable arises on cash and cash equivalents (see note 16).

4 Finance costs

	2012 £'000	2011 £'000
Bank interest	**814**	520
Non-utilisation fees and amortisation of bank loan arrangement fees	**201**	–
Other interest	**14**	2
	1,029	522

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

Notes to the Financial Statements continued

For the year ended 31 July 2012

5 Profit before taxation

	2012 £'000	2011 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
– owned assets	**1,556**	1,613
– assets held under finance leases and hire purchase	**21**	3
Amortisation of intangible assets	**165**	–
Operating lease rentals – land and buildings	**1,729**	1,397

	2012 £'000	2011 £'000
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	**41**	41
Other services		
– the auditing of accounts of associates of the Company pursuant to legislation	**16**	16
Other services supplied pursuant to such legislation		
– interim review	**7**	7
Tax services		
– compliance services	**27**	16
– advisory services	**56**	33
Other services	**11**	1
Corporate finance services	**–**	41
	158	155
Comprising:		
Audit services	**57**	57
Non-audit services:	**101**	98
	158	155

6 Employees

	2012 No.	2011 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**102**	87
Administration	**31**	21
	133	108

	2012 £'000	2011 £.'000
Costs for the above persons:		
Wages and salaries	**2,717**	2,260
Social security costs	**256**	208
Pension costs	**34**	37
	3,007	2,505
Share based remuneration (options)	**92**	100
	3,099	2,605

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £106,213 (2011: £105,066) 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 staff costs in the statement of comprehensive income.

In relation to pension contributions, there was £2,948 (2011: £4,167) outstanding at the year-end.

6 Employees continued

Directors' remuneration

2012	Emoluments £	Bonuses £	Benefits £	Subtotal £	Gains on share options £	Total £
Executive:						
A Jacobs	200,000	10,000	3,150	213,150	–	213,150
SG Thomas	50,000	2,500	3,267	55,767	–	55,767
RA Davies	99,653	8,000	1,916	109,569	–	109,569
CM Jacobs	55,590	2,500	2,586	60,676	–	60,676
Non-Executive:						
RJ Holmes	20,000	–	–	20,000	–	20,000
ETD Luker	25,000	–	–	25,000	–	25,000
CP Peal	20,000	–	–	20,000	–	20,000
I Wright	–	–	–	–	–	–
	470,243	23,000	10,919	504,162	–	504,162

2011	Emoluments £	Bonuses £	Benefits £	Subtotal £	Gains on share options £	Total £
Executive:						
A Jacobs	200,000	14,000	2,562	216,562	–	216,562
SG Thomas	50,000	3,500	2,674	56,174	–	56,174
RA Davies	96,750	10,000	1,732	108,482	–	108,482
CM Jacobs	54,500	4,500	2,182	61,182	–	61,182
Non-Executive:						
RJ Holmes	20,000	–	–	20,000	–	20,000
ETD Luker	25,000	–	–	25,000	–	25,000
CP Peal	20,000	–	–	20,000	–	20,000
I Wright	–	–	–	–	–	–
	466,250	32,000	9,150	507,400	–	507,400

During the year services, including reimbursement of expenses, totalling £309,578 (2011: £302,896) were provided by Value Added Services LLP (VAS), a limited liability partnership in which Andrew Jacobs and Simon Thomas have a beneficial interest. The amount paid to Value Added Services LLP 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 £12,500 (2011: £17,500). See note 30 on 'Related party transactions' for further information.

Pension contributions of £15,062 (2011: £14,663) were paid by the Group on behalf of RA Davies and are not included in the Directors' emoluments table above. 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 (2011: one).

Notes to the Financial Statements continued

For the year ended 31 July 2012

7 Taxation

	2012 £'000	2011 £'000
Current tax:		
UK corporation tax at 25% (2011: 27%)	–	(13)
Deferred tax:		
Origination and reversal of temporary differences	376	451
Impact of change in tax rate on closing balance	(351)	(230)
Adjustments in respect of prior periods	130	(156)
Total deferred tax	155	65
Income tax expense for the year	155	52

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

	2012 £'000	2011 £'000
Profit before tax	926	938
Tax on ordinary activities at the standard rate of corporation tax in the UK of 25% (2011: 27%)	232	253
Expenses not deductible for tax purposes	18	3
Depreciation of non-qualifying assets	103	88
Share based payment charges in excess of corresponding tax deduction	22	27
Impact of change in tax rate	(351)	(230)
Amounts not recognised in deferred tax	–	44
Utilisation of loss against pre-acquisition profits	–	28
Adjustments in respect of prior periods – deferred tax	130	(156)
Other	1	(5)
Income tax expense for the year	155	52
Effective tax rate	17%	6%

The UK's main rate of corporation tax is expected to reduce to 23% from 1 April 2013. The applicable rate for this period is 25%.
In addition to the amount charged to profit or loss for the year, deferred tax relating to the revaluation of the Group's properties of £522,585 (2011: £1,216,374) and the fair value of cash flow hedges of £114,057 (2011: £nil) has been recognised as a credit directly in other comprehensive income (see note 18 on deferred tax).

8 Dividends

	2012 £'000	2011 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2010 (0.67 pence per share)	–	167
Interim dividend for the six months to 31 January 2011 (0.33 pence per share)	–	83
Final dividend for the year ended 31 July 2011 (2.67 pence per share)	667	–
Interim dividend for the six months to 31 January 2012 (1.00 pence per share)	250	–
	917	250

In respect of the current year the Directors propose that a final dividend of 4.00 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £999,746 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefit Trust and for shares held on treasury. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 14 November 2012; the record date 16 November 2012; with an intended payment date of 17 December 2012.

9 Earnings per share

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

	2012 £'000	2011 £'000
Profit for the financial year attributable to owners of the parent	753	892

	2012 No. of shares	2011 No. of shares
Weighted average number of shares		
For basic earnings per share	24,993,653	24,993,653
Dilutive effect of share options*	186,893	201,741
For diluted earnings per share	25,180,546	25,195,394

623,212 (2011: 623,212) shares held in the Employee Benefit Trust and 1,142,000 (2011: 1,142,000) Treasury shares are excluded from the above.

* Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented. Full details of share options are included in notes 20 to 23.

	2012 £'000	2011 £'000
Earnings per share		
Basic	3.01p	3.57p
Diluted	2.99p	3.54p

10 Acquisition of subsidiary

On 30 June 2011 Lok'nStore Limited acquired 90.6% of the issued share capital of Saracen Datastore Limited ('Saracen'), a company incorporated in England & Wales. Saracen provides serviced archive and records management. The cash consideration was £3.7 million. Andrew Jacobs and Ray Davies joined the Saracen Board to provide the majority of the Directors of the Board of Saracen Datastore Limited which, together with Lok'nStore's majority shareholding, gives it control.

Saracen, which is headquartered in Leatherhead, was established in 1991 and has three sites across the South East of England providing over 100,000 sq. ft. of offsite records storage and document and tape archiving space. For the year ended July 2012, Saracen achieved turnover of £2.0 million and adjusted EBITDA of £0.5 million before inter-company management charges of £185,000.

The transaction was accounted for using the acquisition method of accounting. The goodwill is attributable to the synergies that are expected to arise in the post-acquisition period and the skilled labour force of the acquired business. The contractual customer relationships have been separately valued and included an assessment of the value of the skilled labour force.

None of the goodwill is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Saracen and the amounts of assets and liabilities assumed recognised at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in Saracen.

Notes to the Financial Statements continued

For the year ended 31 July 2012

10 Acquisition of subsidiary continued

Net assets acquired

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Assets			
Property, plant and equipment	401	–	401
Intangible assets – customer relationships	–	3,309	3,309
Inventories	9	–	9
Trade and other receivables	596	–	596
Cash and cash equivalents	87	–	87
Total assets	**1,093**	**3,309**	**4,402**
Liabilities			
Trade and other payables	(529)	–	(529)
Other payables	(21)	–	(21)
Current tax liabilities	(69)	–	(69)
Deferred tax liabilities (note 18)	(33)	–	(33)
Deferred tax liabilities arising on initial recognition of intangible assets (note 18)	–	(827)	(827)
Bank loan	(39)	–	(39)
Finance leases	(83)	–	(82)
Total liabilities	**(774)**	**(827)**	**(1,601)**
Fair value of identifiable assets and liabilities	**319**	**2,481**	**2,800**
Non-controlling interest	**(30)**	**(230)**	**(260)**
Goodwill	**–**	**1,110**	**1,110**
Total consideration	**289**	**3,361**	**3,650**

11a Intangible assets

Group	Goodwill £'000	Contractual customer relationships £'000	Total £'000
Cost and net book value at 1 August 2010	–	–	–
Acquisition of subsidiary – Saracen Datastore Limited (note 10)	1,110	3,309	4,419
Amortisation charge*	–	–	–
Cost and net book value at 31 July 2011	1,110	3,309	4,419
Amortisation charge	–	(166)	(166)
Net book value at 31 July 2012	1,110	3,143	4,253

All goodwill is allocated to the serviced archive cash-generating unit (CGU) identified as a separate business segment.

* Due to the proximity of the acquisition to the reporting date, no amortisation was provided for in the financial statements in 2011. The remaining amortisation period of the contractual customer relationships at 31 July 2012 is 18 years and 11 months (2011: 19 years 11 months).

The fair value of the contractual customer relationships was estimated by using an income based approach and applying principles set down by the International Valuation Standards Council in Guidance Note 4 (Valuation of Intangible Assets).

The fair value estimates and values in use for impairment purposes are based on estimated future cash flows and the following key assumptions:

- a discount rate of 11%
- estimated useful lives of customer relationships of 20 years based on a substantially inert and contractually committed customer base
- long term sustainable growth rates of 2.75%
- an application of contributory asset charges (CAC) recognising the contributions to cash flow from tangible assets, working capital and the workforce
- a forward corporation tax rate of 23%

11b Property, plant and equipment

Group	Development property assets at cost £'000	Land and buildings at valuation £'000	Short leasehold improvements at cost £'000	Fixtures, fittings and equipment at cost £'000	Motor vehicles at cost £'000	Total £'000
Cost or valuation						
1 August 2010	7,934	54,131	2,540	15,607	157	80,369
Additions	261	278	57	77	30	703
Assets acquired on acquisition of subsidiary	–	–	–	344	58	402
Reclassification	392	(392)	–	–	–	–
Revaluations	–	(2,987)	–	–	–	(2,987)
31 July 2011	**8,587**	**51,030**	**2,597**	**16,028**	**245**	**78,487**
Depreciation						
1 August 2010	–	–	1,350	6,773	66	8,189
Depreciation	–	492	117	984	23	1,616
Revaluations	–	(492)	–	–	–	(492)
31 July 2011	**–**	**–**	**1,467**	**7,757**	**89**	**9,313**
Net book value at 31 July 2011	**8,587**	**51,030**	**1,130**	**8,271**	**155**	**69,174**
Cost or valuation						
1 August 2011	**8,587**	**51,030**	**2,597**	**16,028**	**245**	**78,487**
Additions	83	1,294	31	420	10	1,838
Reclassification	–	184	(114)	(69)	–	–
Disposals	–	–	–	–	(38)	(38)
Revaluations	–	(640)	–	–	–	(640)
31 July 2012	**8,670**	**51,868**	**2,514**	**16,379**	**217**	**79,648**
Depreciation						
1 August 2011	**–**	**–**	**1,467**	**7,757**	**89**	**9,313**
Depreciation	–	505	126	912	34	1,577
Transfers	–	182	(182)	–	–	–
Reclassification	–	–	9	(9)	–	–
Disposals	–	–	–	–	(24)	(24)
Revaluations	–	(687)	–	–	–	(687)
31 July 2012	**–**	**–**	**1,420**	**8,659**	**99**	**10,179**
Net book value at 31 July 2012	**8,670**	**51,868**	**1,094**	**7,719**	**118**	**69,470**

If all property, plant and equipment were stated at historic cost the carrying value would be £44.65 million (2011: £44.08 million).

Capital expenditure ('capex') during the year totalled £1.8 million (2011: £0.7 million). This included small limited expenditures at existing stores, the purchase of the freehold interest in our Swindon East store, roof renovation with solar power at the Poole store and further racking at the Saracen Olney store. It also included planning and other professional costs incurred in maximising the potential of our existing planning permissions.

Property, plant and equipment (non-current assets) with a carrying value of £69.5 million (2011: £69.2 million) are pledged as security for bank loans (see note 17). The Maidenhead property (see note 11c) is also pledged as security for the bank loans.

The net book value of assets held under finance leases at 31 July 2012 was £116,080 (2011: £136,674) and the depreciation charge includes £20,593 in relation to these assets.

Our Business
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Notes to the Financial Statements continued

For the year ended 31 July 2012

11b Property, plant and equipment continued

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2012, a professional valuation was prepared by valuers Cushman & Wakefield LLP (C&W) in respect of twelve freehold and seven leasehold properties. The valuation was prepared in accordance with the RICS Valuation Standards, Global and UK 7th 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 eight previous valuations for the same purpose as this valuation on behalf of the Company.
- C&W do not provide other significant professional or agency services to the Company.
- In relation to the preceding financial year of C&W the proportion of the total fees payable by the Company to the total fee income of the firm is less than 5%.

The valuation report indicates a total valuation for all properties valued of £67.9 million (2011: £68.0 million) of which £56.1 million (2011: £55.7 million) relates to freehold properties, and £11.8 million (2011: £12.3 million) relates to properties held under operating leases.

Freehold land and buildings are carried at valuation in the statement of financial position. 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 £56.1 million valuation of the freehold properties £4.3 million (2011: £4.7 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £51.9 million (2011: £51.0 million) relates to freehold properties.

The 2012 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 has residential development potential following the grant of planning permission for 112 apartments it remains an operating self storage facility and has been valued as such. 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 stated at cost and any additional uplift based on the assumption that a substantial number of the existing store's customers will transfer to the new store when built has been ignored in the financial statements. The valuations do not account for any further investment in existing stores since July 2012.

Valuation 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 18 trading stores (both freeholds and leaseholds) averages 68.26% (2011: 70.16%). 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 flows 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 18 stores the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 6.31% (2011: 5.49%). This rises to 11.38% (2011: 11.72%) 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 12.05% (2011: 12.18%).
e. Purchaser's costs of 5.8% have been assumed initially and sale plus purchaser's costs totalling 7.8% are assumed on the notional sales in the 10th year in relation to the freehold stores.

11b Property, plant and equipment continued

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 14 years and 6 months as at 31 July 2012 (15 years and 2 months as at 31 July 2011). Valuations for stores held under operating leases are not reflected in the statement of financial position and the assets in relation to these stores are carried at cost less accumulated depreciation.

In 2011, one of the Group store's leases was renegotiated and includes a ten year option to renew the lease from March 2026 to March 2036. The option to extend is only operable in the event that all four of the leases applicable to this store are extended and this option is personal to Lok'nStore or another "major self storage operator", to be approved by the landlord (approval not to be unreasonably withheld). The C&W valuation on this store is based on this special assumption that the option to extend the lease for 10 years is exercised. This is consistent with the approach taken in 2011.

Market Uncertainty

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

Although there were a number of self storage transactions in 2007, C&W have noted that the only significant transactions since 2007 are:

1. The sale of a 51% share in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008;
2. The sale of the former Keepsafe portfolio by Macquarie to Alligator Self storage which was completed in January 2010; and
3. The purchase by Shurgard Europe of 80% interests held by its joint venture partner (Arcapita) in its two European joint venture vehicles, First Shurgard and Second Shurgard. The price paid was 172 million Euros and the transaction was announced in March 2011. The two joint ventures owned 72 self storage properties.

Four smaller transactions took place in 2011 at West Molesey, Cambridge, Dartford and St Albans.

C&W state that due to the lack of comparable market information in the self storage sector, there is a greater uncertainty attached to their opinion of value than would be anticipated during more active market conditions.

It has been held that valuers may properly conclude within a range of values. This range is likely to be greater in an illiquid market where inherent uncertainty exists and a greater degree of judgement must therefore be applied.

Immature stores

C&W have assessed the value of each property individually. The degree of uncertainty relating to immature stores is greater than in relation to the balance of the properties due to there being even less market evidence that might be available for more mature properties and portfolios.

C&W state that in practice, if an actual sale of the properties were to be contemplated then any immature low cash flow stores would normally be presented to the market for sale grouped with other more mature assets owned by the same entity, in order to alleviate the issue of negative or low short term cash flow. This approach would enhance the marketability of the Group of assets and assist in achieving the best price available in the market by diluting the cash flow risk.

C&W have not adjusted their opinion of Market Value to reflect such a grouping of the immature assets with other properties in the portfolio and all stores have been valued individually. However, they highlight the matter to alert the Group to the manner in which the properties might be grouped in order to maximise their attractiveness to the market place.

C&W have not assumed that the entire portfolio of properties owned by the entity 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 (either higher or lower) from the aggregate of the individual values for each property in the portfolio.

Notes to the Financial Statements continued

For the year ended 31 July 2012

11c Property lease premiums

£3.2 million of costs relating to the long lease at Maidenhead is classified as a non-current asset in the statement of financial position (2011: £2.9 million). This represents a lease premium paid on entering the lease and other related costs. The lease runs until 31 March 2076. A peppercorn rent is payable until 2027 and a market ground rent thereafter.

Group	31 July 2012 £'000	31 July 2011 £'000
Balance 1 August	2,944	2,861
Additions during the year	236	83
Balance 31 July	3,180	2,944

12 Investments

Investments in subsidiary undertakings	£'000
31 July 2010	1,490
Capital contributions arising from share-based payments	100
31 July 2011	1,590
Capital contributions arising from share-based payments	92
31 July 2012	1,682

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
Saracen Datastore Limited*	Ordinary	–	90.6	Records Management & Serviced Archive Services

* These companies are subsidiaries of Lok'nStore Limited.
† 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 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Consumables and goods for resale	140	110	–	–

The amount of inventories recognised as an expense during the year was £135,673 (2011: £149,843).

14 Trade and other receivables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade receivables	**1,225**	1,164	**–**	–
Other receivables	**163**	167	**–**	–
Prepayments and accrued income	**467**	490	**–**	–
	1,855	1,821	**–**	–

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

Trade receivables

In respect of its self storage business 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. Late charges are applied to a customer's account if they are more than 10 days overdue in their payment. The Group provides for receivables based upon sales levels and estimated recoverability. There is a right of lien over the customers' goods, so if they have not paid within a certain time frame, the Company has the right to sell the items they store to cover the debt owed by the customer. Trade receivables that are overdue are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

For individual self 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.

In respect of its serviced archive and records management business, customers are invoiced typically monthly in advance for the archive storage of their boxes, tapes and files. The provision of additional services, such as document box or tape collection and retrieval from archive, typically are invoiced monthly in arrears. The serviced archive segment with over 330 customers has a greater customer concentration than the self storage segment, with its ten largest corporate customers accounting for 40% of revenue.

Included in the Group's trade receivables balance are receivables with a carrying amount of £382,270 (2011: £249,239) 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 its self storage customers' goods if these debts are not paid. The average age of these receivables is 52 days past due (2011: 52 days past due).

Ageing of past due but not impaired receivables

	Group 2012 £'000	Group 2011 £'000
0–30 days	**137**	114
30–60 days	**204**	93
60+ days	**41**	42
Total	**382**	249

Movement in the allowance for doubtful debts

	Group 2012 £'000	Group 2011 £'000
Balance at the beginning of the year	**101**	81
Impairment losses recognised	**58**	43
Amounts written off as uncollectible	**(22)**	(23)
Balance at the end of the year	**137**	101

Notes to the Financial Statements continued

For the year ended 31 July 2012

14 Trade and other receivables continued

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

Ageing of impaired trade receivables

	Group 2012 £'000	Group 2011 £'000
0–30 days	–	–
30–60 days	–	–
60+ days	137	101
Total	137	101

15 Trade and other payables

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Trade payables	767	1,084	–	–
Taxation and social security costs	294	449	–	–
Other payables	911	913	–	–
Accruals and deferred income	2,112	2,210	–	–
	4,084	4,656	–	–

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

16 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 17, 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. 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 on-going 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 2012 £'000	Group 2011 £'000
Debt	(29,708)	(28,168)
Cash and cash equivalents	3,961	3,778
Net debt	(25,747)	(24,390)
Statement of financial position equity	38,961	38,826
Net debt to equity ratio	66.1%	62.8%

The modest increase in the Group's gearing ratio arises through the combined effect of an increase in net debt arising from the purchase of the Swindon East property, and a decrease in the C&W valuation of its freehold properties and the requirement to provide for the first time the liability arising on the market to market 'fair value' of the two interest rate swaps executed during the year. Cash generated from operations partially offset the effect.

Exposure to credit and interest rate risk arises in the normal course of the Group's business.

16 Financial instruments continued

A Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of interest rates. During the year the Group executed two separate interest rate swaps with Lloyds TSB plc and these are reported fully in the Financial Review.

B Debt management

Debt is defined as non-current and current borrowings, as detailed in note 17. Equity includes all capital and reserves of the Group. The Group is not subject to externally imposed capital requirements.

The Group borrows through a senior five year term revolving credit facility, arranged through Lloyds TSB Group plc secured on its existing store portfolio and other Group assets with a net book value of £83.1 million (2011: £82.2 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. As at the reporting date the Group has a committed revolving credit facility of £40 million (2011: £40 million). This facility expires on 19 October 2016. Undrawn committed facilities at the year-end amounted to £10.3 million (2011: £11.9 million).

C Interest rate risk management

The Group's policy on interest rate management is agreed at Board level and is reviewed on an on-going basis. All borrowings are denominated in Sterling and are detailed in note 17. 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. During the year the Group entered into two cash flow hedging interest rate swaps in order to reduce the risk of such upward movements in LIBOR rate. These instruments are detailed in note 17b.

The following interest rates applied during the financial year:

1. London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds TSB plc margin based on a loan to value covenant test for the revolving advances amounting to £29.7 million.
2. 40% of the applicable margin in 1 above for non-utilisation (i.e. that part of the facility which remains undrawn from time to time). As at 31 July 2012 the prevailing non-utilisation charge is calculated at a rate of 0.94%.
3. Rates prevailing on the Group's Interest rate swaps. See note 17b.

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to a treasury deposit account which earns interest at the prevailing money market rates*. All amounts are denominated in Sterling. The balances at 31 July 2012 are as follows:

	Group 2012 £'000	Group 2011 £'000
Variable rate treasury deposits*	3,612	3,538
Bank deposits	–	65
SIP trustee deposits	39	31
Cash in operating current accounts	256	106
Other cash and cash equivalents	54	39
Total cash and cash equivalents	3,961	3,779

* Money market rates for the Group's variable rate treasury deposit track Lloyds TSB plc base rate. The rate attributable to the variable rate deposits at 31 July 2012 was 0.5%.

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.

Notes to the Financial Statements continued

For the year ended 31 July 2012

16 Financial instruments continued

D Interest rate sensitivity analysis

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

At 31 July 2012, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £96,815 (2011: £282,729) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £96,815 (2011: £282,729). 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 of 9.7 million, namely 2.33% (2011: 1.84%).

E Cash management and liquidity

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

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

F Foreign currency management

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

G Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in note 14. The Group's self storage business has no significant concentration of credit risk, with exposure spread across 6,700 customers in our stores and no individual customer accounts for more than 1% of revenue. The serviced archive business with over 330 customers has a greater concentration of credit risk with its ten largest corporate customers accounting for 39% of revenue and its top 50 delivering 68.8% of revenue and its top 100 delivering 84.0% 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 2012 was £1,265,638 (2011: £1,208,122) on receivables and £3,960,772 (2011: £3,778,524) on cash and cash equivalents.

H Maturity analysis of financial liabilities

The undiscounted contractual cash flow maturities are as follows:

2012 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	29,681	1,535
From one to two years	–	5	692
Due after more than one year	–	29,686	2,227
Due within one year	2,327	22	696
Total contractual undiscounted cash flows	2,327	29,708	2,923

2011 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	–	–	–
From one to two years	–	26	6
Due after more than one year	–	26	6
Due within one year	2,818	28,142	282
Total contractual undiscounted cash flows	2,818	28,168	288

16 Financial instruments continued

I Fair values of financial instruments

Categories of financial assets and financial liabilities	2012 £'000	2011 £'000
Financial assets		
Trade and other receivables	1,266	1,208
Cash and cash equivalents	3,961	3,779
Financial liabilities		
Trade and other payables	(2,327)	(2,818)
Bank loans	(29,219)	(28,072)
Finance lease payables	(26)	(78)

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. The amounts are presented net of provisions for doubtful receivables and allowances for impairment are made where appropriate. Trade and other payables and bank borrowings are all classified as financial liabilities measured at amortised cost.

J Company's financial instruments

The Company's only financial assets are amounts owed by subsidiary undertakings amounting to £4.5 million (2011: £5.6 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.

17a Borrowings

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-current				
Bank loans repayable in more than two years but not more than five years				
Gross	29,682	–	–	–
Deferred financing costs	(463)	–	–	–
Net bank borrowings	29,219	–	–	–
Finance lease liabilities	5	26	–	–
Non-current borrowings	29,224	26	–	–
Current				
Bank loans repayable in less than one year				
Gross	–	28,090	–	–
Deferred financing costs	–	(18)	–	–
Net bank borrowings	–	28,072	–	–
Finance lease liabilities	21	52	–	–
Current borrowings	21	28,124	–	–
Total borrowings	29,245	28,150	–	–

The £40 million revolving credit facility with Lloyds TSB plc is secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £83.1 million together with cross-company guarantees from Group companies. The revolving credit facility is for a five-year term and expires on 19 October 2016. 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 2.35%–2.65% Lloyds TSB plc margin based on a loan to value covenant test while the interest cover and loan to value covenants are broadly in line with the previous facility.

Notes to the Financial Statements continued

For the year ended 31 July 2012

17a Borrowings continued

Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default and are as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Gross finance liabilities – minimum lease payments				
Within one year	27	66	–	–
Later than one year and no later than five years	6	32	–	–
Later than five years	–	–	–	–
	33	98	–	–
Future finance charges on finance leases	(7)	(20)	–	–
	26	78	–	–

The present value of finance lease liabilities is as follows:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Gross finance liabilities – minimum lease payments				
Within one year	21	52	–	–
Later than one year and no later than five years	5	26	–	–
	26	78	–	–

17b Derivative financial instruments

On 25 May 2012, the Group entered into a £10 million interest rate swap as a cash flow hedge with Lloyds TSB Bank plc effective from 31 May 2012 at a fixed 1 month sterling LIBOR rate of 1.2%. On 30 May 2012, the Group entered into a £10 million interest rate swap with Lloyds TSB Bank plc also effective from 31 May 2012 at a fixed one-month sterling LIBOR rate of 1.15%. Both swaps run up to the expiration of the current banking facility in October 2016. The balance of the drawn facility of £9.7 million remains at a floating rate.

	Currency	Principal £'000	Maturity date	Fair value £'000
3032816LS Interest rate swap	GBP	10,000	20/10/2016	(258)
3047549LS Interest rate swap	GBP	10,000	20/10/2016	(238)
		20,000		(496)

The fair value of the interest rate swaps of £495,900 has been recognised in other comprehensive income in the year.

18 Deferred tax

Deferred tax liability	Group 2012 £'000	Group 2011 £'000
Liability at start of year	10,555	10,846
Charge to income for the year	154	65
Tax credited directly to other comprehensive income	(636)	(1,216)
Saracen – initial recognition of intangible assets on acquisition	–	827
Saracen – other deferred tax recognised on acquisition	–	33
Liability at end of year	10,073	10,555

18 Deferred tax continued

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

	Accelerated Capital Allowances £'000	Tax losses £'000	Intangible Assets £'000	Other temporary differences £'000	Revaluation of properties £'000	Rolled over gain on disposal £'000	Total £'000
At 1 August 2010	**1,480**	**(1,093)**	**–**	**–**	**8,002**	**2,457**	**10,846**
Charge/(credit) to income for the year	(206)	494	–	24	(65)	(182)	65
Charge/(credit) to other comprehensive income	–	–	–	–	(1,216)	–	(1,216)
Saracen							
– Initial recognition of intangible assets	–	–	827	–	–	–	827
– Recognised on acquisition	33	–	–	–	–	–	33
At 31 July 2011	**1,307**	**(599)**	**827**	**24**	**6,721**	**2,275**	**10,555**
Charge/(credit) to income for the year	127	367	(104)	(2)	(51)	(182)	155
Charge/(credit) to other comprehensive income	–	–	–	(114)	(523)	–	(637)
At 31 July 2012	**1,434**	**(232)**	**723**	**(92)**	**6,147**	**2,093**	**10,073**

At the reporting date, the Group has unused revenue tax losses of approximately £1.15 million (2011: £2.63 million) available to carry forward against future profits of the same trade. A deferred tax asset of £0.23 million (2011: £0.60 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 £55,371 (2011: £39,195) arises in respect of the share options in existence at 31 July 2012 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 2012 as the share price at the year-end is below the exercise price of the options.

The UK's main rate of corporation tax is expected to reduce to 23% from 1 April 2013 with a further reduction to 22% from 1 April 2014. Due to the difficulty of predicting the amount of capital expenditure over this period, it is not possible to accurately quantify the effect of the rate change on the deferred tax position over this period.

19 Share capital

	2012 £'000	2011 £'000
Authorised:		
35,000,000 ordinary shares of 1 pence each (2011: 35,000,000)	**350**	350

	2012 £'000	2011 £'000
Allotted, issued and fully paid ordinary shares	**268**	268

	Number	Called up, allotted and fully paid £'000
Number of shares at 31 July 2011 and 31 July 2012	**26,758,865**	268

The Company has one class of ordinary shares which carry no right to fixed income.

Notes to the Financial Statements continued

For the year ended 31 July 2012

20 Equity-settled share-based payment plans

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

The Company has the following share options:

Summary	As at 31 July 2011	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2012
Enterprise Management Initiative Scheme	349,166	–	–	–	349,166
Unapproved Share Options	2,164,386	277,789	–	–	2,442,175
Approved CSOP Share Options	232,002	52,211	–	(500)	283,713
Total	2,745,554	330,000	–	(500)	3,075,054
Options held by Directors	1,830,000	175,000	–	–	2,005,000
Options not held by Directors	915,554	155,000	–	(500)	1,070,054
Total	2,745,554	330,000	–	(500)	3,075,054

Summary	As at 31 July 2010	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2011
Enterprise Management Initiative Scheme	491,901	–	–	(142,735)	349,166
Unapproved Share Options	2,192,213	240,517	–	(268,344)	2,164,386
Approved CSOP Share Options	179,019	62,983	–	(10,000)	232,002
Total	2,863,133	303,500	–	(421,079)	2,745,554
Options held by Directors	1,655,000	175,000	–	–	1,830,000
Options not held by Directors	1,208,133	128,500	–	(421,079)	915,554
Total	2,863,133	303,500	–	(421,079)	2,745,554

The following table shows options held by Directors under all schemes.

2012	EMI Scheme	Unapproved Scheme	Approved CSOP share options	Total
Executive Directors				
A Jacobs	–	500,000	–	500,000
SG Thomas	–	500,000	–	500,000
RA Davies	98,039	528,431	23,530	650,000
CM Jacobs	79,173	216,082	24,745	320,000
Non-Executive Directors				
RJ Holmes	–	10,000	–	10,000
ETD Luker	–	15,000	–	15,000
CP Peal	–	10,000	–	10,000
	177,212	1,779,513	48,275	2,005,000

20 Equity-settled share-based payment plans continued

2011	EMI Scheme	Unapproved Scheme	Approved CSOP share options	Total
Executive Directors				
A Jacobs	–	450,000	–	450,000
SG Thomas	–	450,000	–	450,000
RA Davies	98,039	478,431	23,530	600,000
CM Jacobs	79,173	191,082	24,745	295,000
Non-Executive Directors				
RJ Holmes	–	10,000	–	10,000
ETD Luker	–	15,000	–	15,000
CP Peal	–	10,000	–	10,000
	177,212	1,604,513	48,275	1,830,000

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 (2011: nil).

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

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

The total charge for the year relating to employer share-based payment schemes was £91,821 (2011: £99,639), all of which relates to equity-settled share-based payment transactions.

The Group has taken advantage of the exemption available under IFRS 2 to exclude options granted before 7 November 2002 from the share-based payment charge and so 15,000 of the Group's options are excluded from the share-based payment calculations detailed below.

The total fair value of the options granted in the year was £96,284 (2011: £121,154).

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21 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 criterion has been met.

Movements in the year are shown in the table below.

	Options 2012 number	Weighted* average exercise price 2012 pence	Options 2010 number	Weighted* average exercise price pence
Outstanding at 1 August	**349,166**	**121.23**	491,901	121.23
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	(91,655)	102.81
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	(51,080)	n/a*
Outstanding at 31 July	**349,166**	**121.23**	349,166	121.23
Exercisable at 31 July	**349,166**	**121.23**	349,166	121.23

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

The share price at the year-end was 108.5 pence per share. The share price ranged from 89.2 pence per share to 119.0 pence per share during the year. The exercise prices for shares exercisable at 31 July ranged from 93.0 pence per share to 156.0 pence per share. The options outstanding at 31 July 2012 had a weighted average contractual life of 1.7 years (2011: 2.7 years). The inputs into the Black-Scholes model used to value the options, 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 (pence)
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
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 2011	Granted	Surrendered	As at 31 July 2012	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
	177,212	–	–	**177,212**			

22 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 2012 number	**Weighted average exercise price 2012 pence**	Options 2010 number	Weighted average exercise price pence
Outstanding at 1 August	**2,164,386**	**127.09**	2,192,213	136.18
Granted during the year	**277,789**	**108.50**	240,517	107.00
Forfeited during the year	**–**	**–**	(268,344)	182.84
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 July	**2,442,175**	**124.19**	2,164,386	127.09
Exercisable at 31 July	**1,796,888**	**131.70**	1,458,888	149.69

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

The options outstanding at 31 July 2012 had a weighted average remaining contractual life of 5.7 years (2011: 6.2 years). The exercise prices for shares exercisable at 31 July 2012 ranged from 56.5 pence per share to 269.5 pence per share.

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22 Unapproved Share Options continued

The inputs into the Black-Scholes model used to value the options 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 (pence)
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
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
1 August 2007	6	211.00	178.20	29.97	0.47	5.36	94.44
1 August 2007	6	211.00	93.00	29.97	0.47	5.36	140.00
1 August 2007	6	211.00	113.00	29.97	0.47	5.36	127.77
1 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
31 July 2011	6	107.00	107.00	40.20	0.93	1.87	39.98
31 July 2012	6	108.50	108.50	40.53	3.38	0.60	29.18

22 Unapproved Share Options continued

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

	As at 31 July 2011	Granted £	Exercised/ lapsed £	As at 31 July 2012	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	50,000	–	–	**50,000**	102	21/01/07	21/01/14
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**	13.5	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
A Jacobs	50,000	–	–	**50,000**	107	31/07/14	31/07/21
A Jacobs	–	50,000	–	**50,000**	108.5	31/07/15	31/07/22
Total A Jacobs	450,000	50,000	–	**500,000**			
S Thomas	50,000	–	–	**50,000**	102	21/01/07	21/01/14
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**	13.5	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
S Thomas	50,000	–	–	**50,000**	107	31/07/14	31/07/21
S Thomas	–	50,000	–	**50,000**	108.5	31/07/15	31/07/22
Total S Thomas	450,000	50,000		**500,000**			
R Davies	1,961	–	–	**1,961**	102	21/01/07	21/01/14
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
R Davies	50,000	–	–	**50,000**	107.0	31/07/14	31/07/21
R Davies	–	50,000	–	**50,000**	108.5	31/07/15	31/07/22
Total R Davies	478,431	50,000	–	**528,431**			
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	31/07/13	30/07/20
C Jacobs	25,000	–	–	**25,000**	107	31/07/14	31/07/21
C Jacobs	–	25,000	–	**25,000**	108.5	31/07/15	31/07/22
Total C Jacobs	191,082	25,000	–	**216,082**			
ETD Luker	15,000	–	–	**15,000**	56.5	31/07/12	31/07/19
Total ETD Luker	15,000	–	–	**15,000**			
R Holmes	10,000	–	–	**10,000**	56.5	31/07/12	31/07/19
Total R Holmes	10,000	–	–	**10,000**			
C Peal	10,000	–	–	**10,000**	56.5	31/07/12	31/07/19
Total C Peal	10,000	–	–	**10,000**			
Total	1,604,513	175,000	–	**1,779,513**			

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

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23 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 2012 number	Weighted average exercise price 2012 pence	Options 2011 number	Weighted average exercise price pence
Outstanding at 1 August	52,211	90.97	179,019	85.00
Granted during the year	277,789	108.50	62,983	107.00
Forfeited during the year	(500)	107.86	(10,000)	85.00
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 July	283,713	94.17	232,002	90.97
Exercisable at 31 July	–	–	–	–

The options outstanding at 31 July 2012 had a weighted average remaining contractual life of 8.6 years (2011: 9.3 years). There were no options exercisable at 31 July 2012.

The inputs into the Black-Scholes model used to value the options 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 (pence)
30 July 2010	6	85.00	85.00	39.22	1.56	2.29	29.62
31 July 2011	6	107.00	107.00	40.20	0.90	1.87	39.98
31 July 2012	6	108.50	108.50	40.50	3.40	0.60	29.18

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

	As at 31 July 2011	Granted £	Exercised/ lapsed £	As at 31 July 2012	Exercise price (pence)	Date from which exercisable	Expiry Date
R Davies	23,530	–	–	23,530	85.00	30/07/13	30/07/20
C Jacobs	24,745	–	–	24,745	85.00	30/07/13	30/07/20
	48,275	–	–	48,275			

24 Other reserves

Group	Cash flow hedge reserve £'000	Merger reserve £'000	Other distributable reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2010	**–**	**6,295**	**5,403**	**34**	**1,276**	**13,008**
Share based remuneration (options)	–	–	–	–	100	100
Dividend paid	–	–	(250)	–	–	(250)
1 August 2011	**–**	**6,295**	**5,153**	**34**	**1,376**	**12,858**
Share based remuneration (options)	–	–	–	–	92	92
Cash flow hedge reserve net of tax	(382)	–	–	–	–	(382)
Dividend paid	–	–	(917)	–	–	(917)
31 July 2012	**(382)**	**6,295**	**4,236**	**34**	**1,468**	**11,651**

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.

25 Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (note 26) £'000	Retained earnings Total £'000
1 August 2010	**6,091**	**(2,593)**	**3,498**
Profit attributable to owners of Parent for the financial year	893	–	893
Transfer from revaluation reserve	196	–	196
1 August 2011	**7,180**	**(2,593)**	**4,587**
Profit attributable to owners of Parent for the financial year	753	–	753
Transfer from revaluation reserve	205	–	205
31 July 2012	**8,138**	**(2,593)**	**5,545**

The transfer from revaluation reserve represents the additional depreciation charged on revalued assets net of deferred tax.

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 of Lok'nStore Group Plc. The Company loss for the year was £193,995 (2011: £168,886).

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26 Own shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
1 August 2010	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**
31 July 2011	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**
31 July 2012	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**

Lok'nStore Limited holds a total of 1,142,000 of Lok'nStore Group Plc 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 Parent Company's called-up share capital. The maximum number of shares held by Lok'nStore Limited in the year was 1,142,000. No shares were disposed of or cancelled in the year.

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 2012, the Trust held 623,212 (2011: 623,212) ordinary shares of 1 pence each with a market value of £676,185 (2011: £666,837). No shares were transferred out of the scheme during the year (2011: nil).

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

27 Cash flows

(a) Reconciliation of profit before tax to cash generated from operations

	2012 £'000	2011 £'000
Profit before tax	**926**	938
Depreciation	**1,577**	1,616
Amortisation of intangible assets	**165**	–
Professional costs – acquisition of Saracen	**–**	129
Equity settled share based payments	**92**	100
Loss on sale of motor vehicles	**4**	–
Interest receivable	**(15)**	(24)
Interest payable	**1,029**	522
Increase in inventories	**(30)**	(40)
Increase in receivables	**(34)**	(630)
(Decrease)/increase in payables	**(571)**	989
Cash generated from operations	**3,143**	3,600

27 Cash flows continued

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

Net debt is defined as non-current and current borrowings, as detailed in note 17 less cash and cash equivalents.

	31 July 2012 £'000	31 July 2011 £'000
Increase/(decrease) in cash in the year	182	(1,586)
Change in net debt resulting from cash flows	(1,540)	(78)
Movement in net debt in year	(1,358)	(1,664)
Net debt brought forward	(24,389)	(22,725)
Net debt carried forward	(25,747)	(24,389)

28 Commitments under operating leases

At 31 July 2012 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 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Land and buildings				
Amounts due:				
Within one year	1,618	1,578	–	–
Between two and five years	6,090	5,920	–	–
After five years	6,087	8,405	–	–
	13,795	15,903	–	–

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 £88,213 (2011: £92,450). 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 reporting date the Group had contracted with tenants, under non-cancellable leases, for the following future minimum lease payments:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Within one year	89	77	–	–

29 Events after the reporting date

Crawley Store – Management Contract secured: The Group signed an agreement to manage a new self storage centre in Crawley, Sussex on behalf of a third party investor. Completion of the transaction took place after the year-end on 10 August 2012. This new larger site follows the same investor's already successful store in Woking, Surrey which has been managed by Lok'nStore since 2007. It is the third store management contract for Lok'nStore. The Group has provided a medium term interest-bearing loan of £250,000 to facilitate the investor's purchase of the site, and will manage the fit-out and the operation of the store under the Lok'nStore brand.

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29 Events after the reporting date continued

VAT Tribunal decision: Following a longstanding dispute with HMRC on a VAT partial exemption issue, the matter was referred to a Tax Tribunal. The Tribunal Hearing took place in July 2012 to consider the matter and judgement was received in September 2012 in favour of Lok'nStore. Full details on this matter are provided under note 31c below.

Retirement of Non-Executive Director: On 19 October 2012, Ian Wright retired as a Non-Executive Director with immediate effect. The Board would like to thank Ian for his contribution since his appointment in May 2011.

30 Related party transactions

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

	2012 £'000	2011 £'000
Net amount due from Lok'nStore Limited	4,490	5,601

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 2011.

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.

	2012 £'000	2011 £'000
Short term employee benefits	504	507
Post-employment benefits	15	15
Share-based payments	59	66
Total	578	588

The Group has a service agreement for strategic services with Value Added Services LLP, a limited liability partnership in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Value Added Services LLP are as shown in note 6. Fees are settled monthly and there were no outstanding amounts due to Value Added Services LLP at the year-end (2011: £Nil). The maximum balance outstanding at any time during the year was £24,252 (ex VAT) (2011: £24,252).

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 (2011: £6,000). The balance outstanding to Trucost plc at year-end was £nil (2011: £nil).

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 £21,310 (2011: £20,741). There were no amounts outstanding due to Keith Jacobs at the year-end (2011: £3,427). The maximum balance outstanding at any time during the year is £1,956 (ex VAT) (2011: £3,427).

31a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £2,555,116 (2011: £343,327) relating to the £2.5 million development commitment at Aldershot and various other minor works.

31b 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 £29.7 million (2011: £28.1 million).

31c 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 approached HMRC to request the implementation of a Partial Exemption Special Method (PESM). Lok'nStore has 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 £140,903 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 dispute. 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 were 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) would be stood over pending the outcome of the first appeal in respect of the proposed PESM. The Tribunal Hearing took place in July 2012 to consider the matter and judgement was received in September in favour of Lok'nStore. The Judge found that while there was some link between overhead costs and the cost of insurance there was not a significant link and concluded that the standard method was not a fair proxy for use and went to find that our proposed method gave a more accurate proxy for use and should be accepted. HMRC have 56 days from the date of judgement to appeal and at the date of these accounts their position is not yet known.

Accordingly, in light of the potential for HMRC to appeal the judgement it is appropriate, as in previous years, to update on the range of outcomes, on a worst case scenario, the overall liability in relation to input tax claimed up to the end of July 2012 which may become repayable to HMRC totals £409,940 (2011: £369,193) based on the standard method restriction. Of this £222,609 (2011: £203,386) relates to capital expenditure inputs and £187,331 (2011: £165,807) relates to income statement items. Interest would be added to both totals. Alternatively, if our floor-based special method is unchallenged by HMRC, this will give a restriction of less that 0.1%, in which case the total amount of VAT (plus interest) to be assessed by HMRC would on the figures above give a de minimus result.

It remains the Group's position to continue to report the position as a contingent liability until such time as HMRC's time for appeal is passed. However while that outcome at present remains uncertain it is not considered that any material provision is necessary.

Glossary

Abbreviation	
AGM	Annual General Meeting
APD	Auditing Practices Board
Bps	Basis Points
C&W	Cushman & Wakefield
CAC	Contributory asset charges
Capex	Capital Expenditure
CGU	Cash generating units
CO_2e	Carbon Dioxide Emissions
CSOP	Company Share Incentive Plan
EBT	Earnings Before Tax
EBITDA	Profits before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, acquisition costs, and non-recurring professional costs, finance income, finance costs and taxation
EMI	Enterprise Management Incentive Scheme
EU	European Union
GHG	Indirect greenhouse gas
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LIBOR	London Interbank Offered Rate
LTV	Loan to Value Ratio
MWh	Megawatt Hour
Operating Profit	Earnings before interest and tax (EBIT)
PESM	Partial Exemption Special Method
RICS	Royal Institution of Chartered Surveyors
SMO	Standard Method Override Calculation
sq. ft.	Square Foot
Store EBITDA	Store Earnings before interest, taxes, depreciation, and amortisation
SWE	Swindon East
SWW	Swindon West
VAT	Value Added Tax

Our Stores and Locations

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