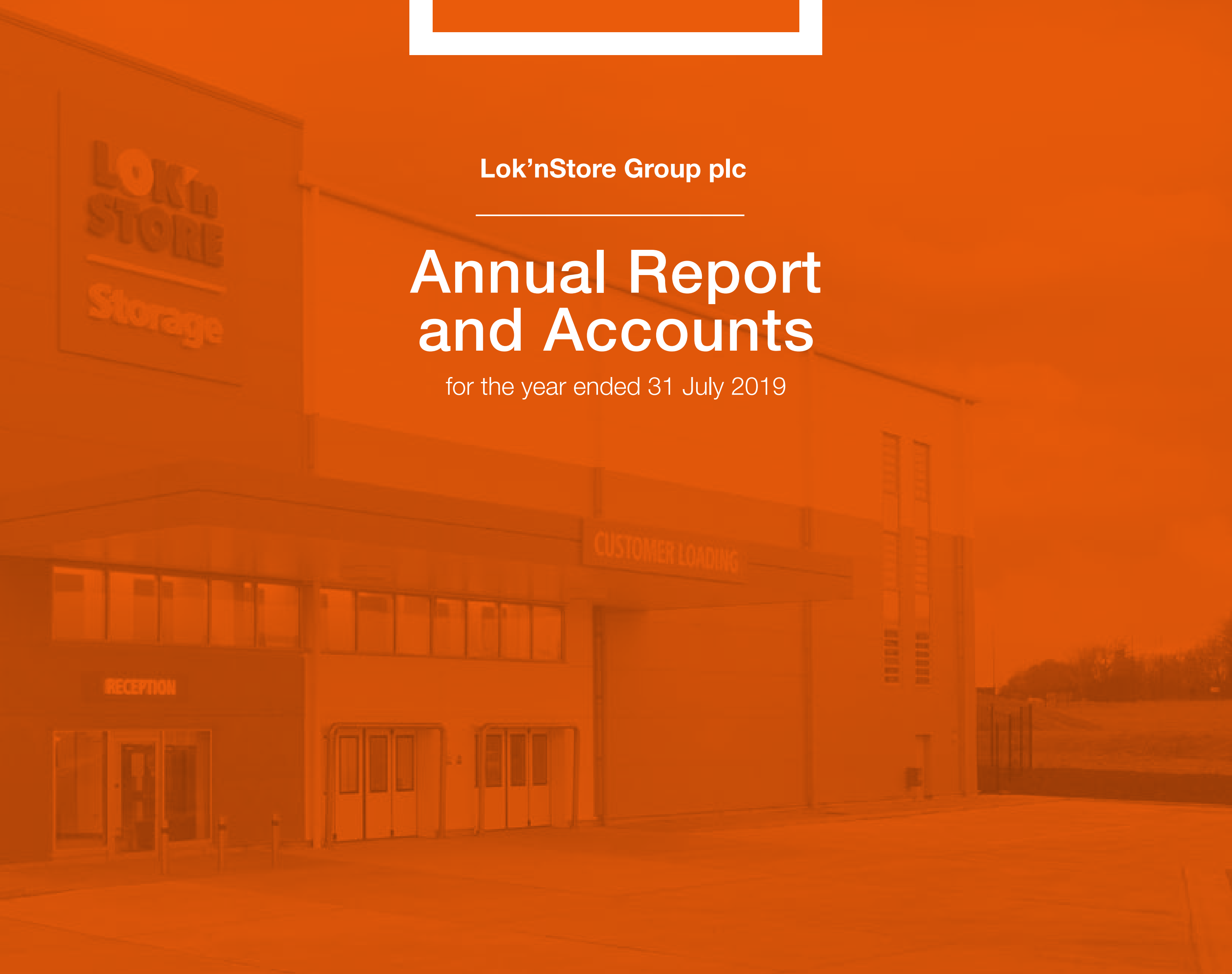
LOK'n STORE

Self Storage



Lok'nStore Group plc

Annual Report and Accounts

for the year ended 31 July 2019

We are a **leading company** in the fast growing UK self-storage market. We opened our first self-storage centre in February 1995 and have **grown consistently over the last 24 years**. We currently operate 34 self-storage centres mainly in Southern England. We have been listed on AIM since June 2000.

To find out more visit:
www.loknstore.com/investors

Highlights

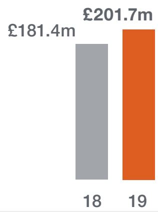
Impressive growth and expanding new store opening programme.

GROUP REVENUE[1]

up 10.3%

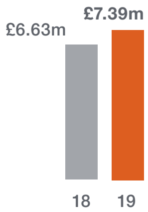
ADJUSTED TOTAL ASSETS[5]

up 11.2%



GROUP ADJUSTED EBITDA[2]

up 11.5%

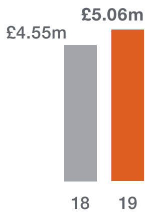


ADJUSTED NET ASSET VALUE[6] PER SHARE

up 11.1%

OPERATING PROFIT[3]

up 11.1%



ANNUAL DIVIDEND PER SHARE

up 9.1%

STRONG BALANCE SHEET, CONSERVATIVE DEBT

- Net debt down 9.3% to £29.3 million (2018: £32.3 million)
- Loan to value ratio[7] down to 16.1% (2018: 19.7%)
- Increased bank facility from £50 million to £75 million with an accordion to £100 million

EFFICIENT CAPITAL ALLOCATION

- Disposal of document storage business for £7.63 million cash
- Sale and manage back of Crayford store at valuation for £7.42 million net cash

"Lok'nStore Group has had an **excellent** year successfully implementing our strategic objectives. We have created a strong platform for an **exciting period of growth** for Lok'nStore with revenue, profits and asset values all moving strongly ahead. Our adjusted net asset value per share has increased by a substantial 11.1% to £5.33 this year and we are raising the annual dividend by 9.1% to 12 pence per share. We have achieved a notable acceleration in our new store pipeline to 14 sites which will significantly increase operating space over the coming years."

"With a **strong balance sheet** and low gearing helped by capital recycling, we will continue to build more landmark stores in an under-supplied market. This will add **considerable momentum** to sales and earnings growth and positions the Group well for the future."

Andrew Jacobs, CEO

Find out more about our Key Performance Indicators on page 17

Chairman's Statement

"We are fulfilling our commitment to a period of **sustainable growth** based on the strong platform we have built."

Simon G. Thomas
Chairman

This is an exciting set of results with Lok'nStore continuing to deliver on our commitment to rapid and sustainable growth.

During the year we opened four new landmark stores which are all trading well and have contributed to both the growth in turnover and the significant rise (11.1%) in our Adjusted Net Asset Value per share to £5.33 (2018: £4.80). Our new store pipeline has increased to 14 sites.

The detail behind these results is discussed further in our Chief Executive Officer's review and the Financial Review on pages 13 and 22 respectively. The performance of Lok'nStore this year can be summarised under three headings:

- Strong operating performance resulting in double digit turnover and Group Adjusted EBITDA growth
- Growing asset value driven by existing store performance and growth in new stores
- More new stores in the pipeline

The continued investor interest in this sector together with the transactions of self-storage centres gives the Board confidence in the increased value of our assets.

Capital Recycling

The disposal of our document storage business generated £7.64 million in cash (gross) while the sale and manage back of our Crayford store generated a further £7.42 million in cash. These proceeds will now be reinvested back into new faster growth landmark stores.

While we invested over £14 million in store development in this financial year, as a result of this recycling of capital we are able to report a year-end loan-to-value (LTV) ratio down to 16.1% (2018: 19.7%) and net debt down to £29.3 million (2018: £32.3 million).

The Group continues to source high quality sites for new landmark stores. Our rapid store development programme has led to an increase in new and purpose built space to 62% of our owned portfolio. This will rise to 69% following development of our current pipeline.

Managed Stores

Our growth strategy includes increasing the number of stores we manage for third party owners. This enables the Company to earn revenue without having to commit our capital, to amortise fixed central costs over a wider operating base and drive further traffic to our website which benefits our entire operation. We generated managed store income of £816,676 this year, up 53% from the previous year. Managed store income is generated from our existing platform and central management, resulting in an effective margin from this activity of 100%. Our current pipeline includes an additional two managed stores which will take the total number of managed stores to 13.

Committed People

We rely on the dedication of our people to deliver these impressive results and will continue to invest in training to develop and deepen their skills. This year we have provided over 4,000 hours of training via our Academy and you can read more about this in our Corporate Sustainability Report. We have reviewed our pay levels to ensure that all of our employees are paid fairly and we continue to promote equity ownership to our colleagues via our Share Investment Plan and the granting of options.

We do this because it makes business sense, directly contributing to our strategic and operational objectives which are to:

- Steadily increase cash available for distribution (CAD) per share enabling a predictable growth of the dividend from a strong asset base with conservative levels of debt
- Fill existing stores and improve pricing
- Acquire more sites to build new landmark stores
- Increase the number of stores we manage for third parties

I would like to thank all of our employees for the enormous contribution they have made to our Group's continuing success.

1995
LOK'N STORE FOUNDED

£10m
EQUITY RAISED IN 2001

#4
SELF STORAGE OPERATOR IN THE UK

Board Governance

In March 2018 the London Stock Exchange published AIM Notice 50 requiring companies to comply with a recognised Corporate Governance Code. Your Board has decided to apply the Quoted Companies Alliance's (QCA) Corporate Governance Code which takes a proportionate principle based approach to the application and reporting of good governance. We believe this code is appropriate to the size and nature of the Company. Please refer to the Corporate Governance section of this report and our website for more information.

The composition of the Board is also my responsibility and I believe the current composition of your Board continues to be in the best interest of Shareholders as a whole.

Progressive Dividend Policy

For the eighth consecutive year and in line with our stated aim to provide a predictable dividend growth, we are proposing to increase the annual dividend pay-out by one penny. The Group will therefore pay a final dividend of 8.33 pence per share on 10 January 2020 following the interim dividend payment of 3.67 pence per share in June 2019 making a total annual dividend of 12 pence per share, up 9.1% from 11 pence last year.

I hope you enjoy reading this year's report and that you will feel as confident and optimistic as I do about the future of Lok'nStore Group plc.

Simon G. Thomas
Chairman
1 November 2019

4
NEW LANDMARK STORES

1
ACQUIRED STORE

216,000
ADDITIONAL SQ. FT. OF LETTABLE SPACE

Group at a Glance

Lok'nStore Group plc is one of the leading companies in the fast growing UK self-storage market.

We opened our first self-storage centre in 1995 and have grown consistently over the last 24 years, currently with 34 self-storage centres trading mainly in Southern England.

We have been listed on the AIM Market since June 2000 and the Board accounts for 28.52% of the Total Voting Rights (TVR) in the ordinary shares of the Company (2018: 29.3%).

We offer self-storage from our own stores, and management services to third party storage owners. Self-storage and other storage services are available to both household and business customers at our highly branded Lok'nStore centres.

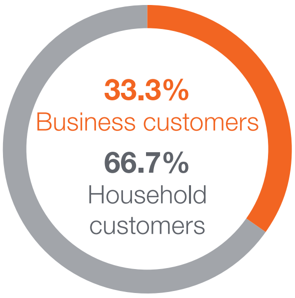
HOUSEHOLD STORAGE

- Storage rooms
- Vehicle storage
- Student packages
- Forces & services packages

BUSINESS STORAGE

- Pallet storage
- Self-storage archiving
- Flexible space
- Commercial vehicle storage

REVENUE BY CUSTOMER TYPE



NUMBER OF TRADING STORES BY TYPE

NUMBER OF PIPELINE STORES BY TYPE

OUR LANDMARK STORES

We develop and operate self-storage centres predominantly in prominent locations in Southern England. Our eye-catching buildings with their distinctive orange livery create highly visible landmarks which continue to be a big contributor of new business for Lok'nStore.

We opened or acquired five new stores in this financial year: Cardiff, Dover, Exeter, Ipswich and Hedge End.

PAGE 7

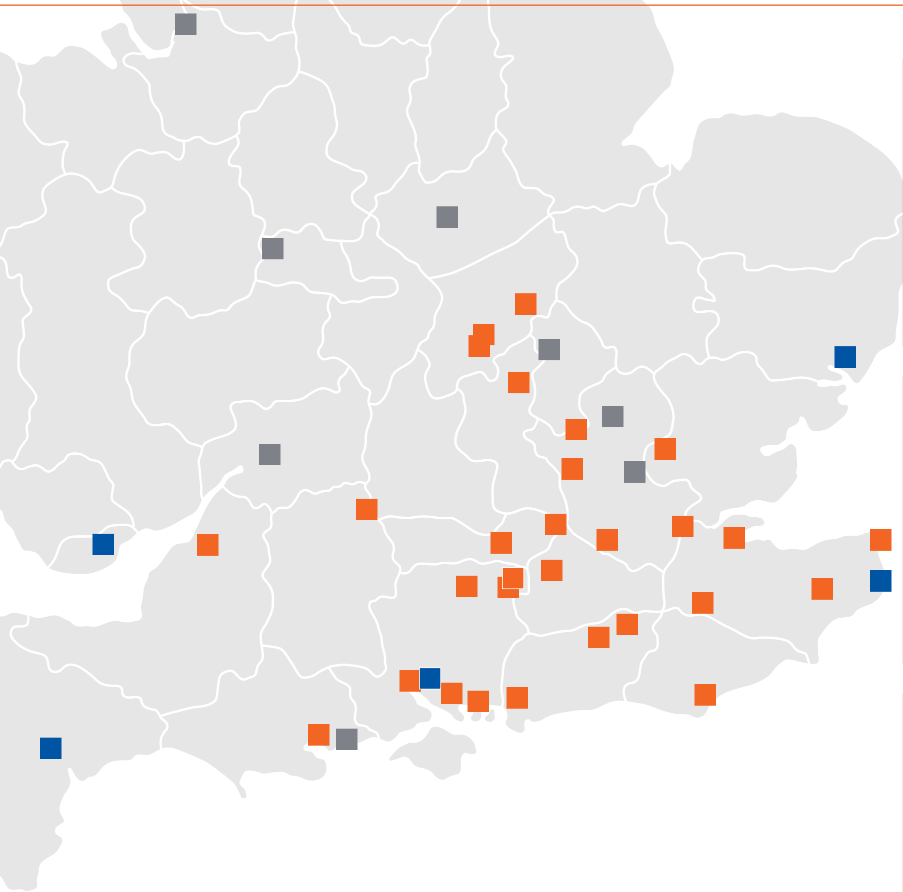
IPSWICH

34
STORAGE CENTRES

11,800+
CUSTOMERS

161
EMPLOYEES

OUR LOCATIONS



Stores
- Aldershot
- Ashford
- Basingstoke
- Bristol
- Broadstairs
- Chichester
- Crawley
- Crayford
- Eastbourne
- Farnborough
- Fareham
- Gillingham
- Harlow
- Hemel Hempstead
- Horsham
- Luton
- Maidenhead
- Milton Keynes
- Northampton Central
- Northampton Riverside
- Poole
- Portsmouth
- Reading
- Southampton
- Sunbury
- Swindon
- Tonbridge
- Wellingborough
- Woking

New Stores
- Cardiff
- Dover
- Exeter
- Ipswich
- Hedge End

Pipeline Stores
- Bedford
- Bournemouth
- Cheshunt
- Gloucester
- Leicester
- Stevenage
- Warrington
- Wolverhampton

To find out more about our store locations visit: **www.loknstore.com**

PAGE 37
EXETER

PAGE 55
DOVER

Strategic Report

IPSWICH

Lok'nStore Ipswich opened in July 2019 and early trading has been encouraging.

This stunning landmark store is located on Futura Park, a new but established retail destination to the south-east of Ipswich town centre. The store sits between premium brands such as John Lewis, Waitrose and Audi, reflecting the premium service that our store team provides to its customers.

The market-leading, modern store is the only purpose-built storage facility serving the 135,000 people of Ipswich and becomes the first Lok'nStore location open in Suffolk.

40,690

SQUARE FEET OF MAXIMUM LETTABLE AREA

OPEN

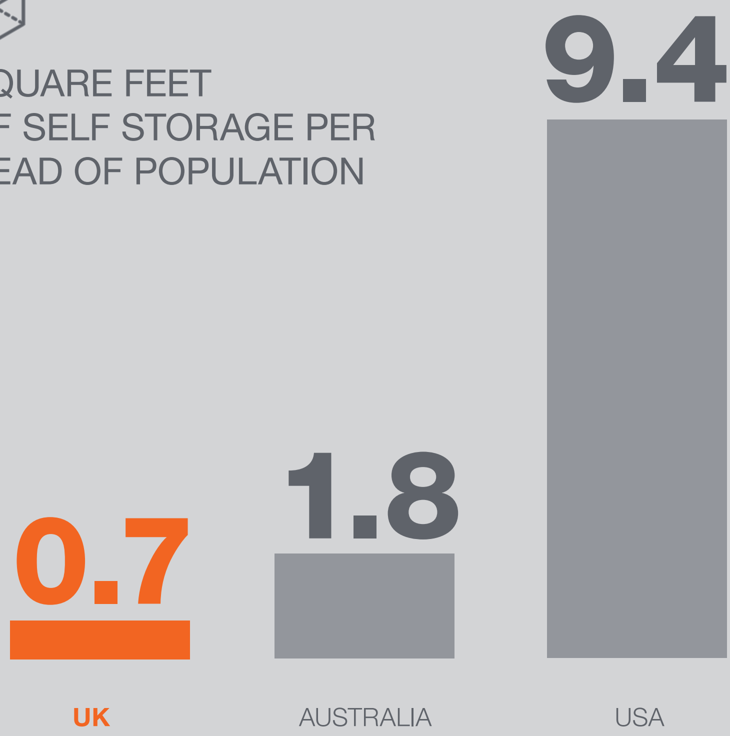
NOW

The UK Self-Storage Market

The UK self-storage market at a glance

The Self-Storage Association UK Annual Industry Survey 2019 reports that the UK Self Storage industry is made up of 1,582 sites offering 45.6 million square feet of space. There was a 3.9% increase in space used by customers in 2018.

SQUARE FEET OF SELF STORAGE PER HEAD OF POPULATION



£720m
ANNUAL TURNOVER OF UK SELF STORAGE INDUSTRY

28,800
SQ. FT. AVERAGE STORE SIZE

1.3m
SQ FT OF ADDITIONAL SPACE USED BY CUSTOMERS IN 2018

3.9%
RISE IN OCCUPANCY ACROSS THE INDUSTRY IN 2018

ONLY **48%**
OF PEOPLE HAVE A REASONABLE OR GOOD AWARENESS OF SELF STORAGE

Market Overview

As reported in the Self-Storage Association UK (SSA UK) Annual Industry Survey 2019 the UK self-storage market continues to grow but remains under-developed relative to Australia and the USA. In the UK there are an estimated 1,582 self-storage facilities providing 45.6 million square feet of storage space. With a population of 65.2 million people in the UK this equates to only 0.68 square feet per person compared to 9.4 square feet per person in the USA and 1.8 square feet in Australia. The UK has 46% of all European self-storage space.

The structure of the UK industry is changing. When the industry first emerged companies were predominately single owner sites often located in industrial areas but larger operators (defined as operators managing ten or more sites), such as Lok'nStore, have recently been developing purpose built stores in retail facing locations offering customers a higher standard of product and service.

The main barriers to entry to the market remain the difficulty in finding and securing suitable sites as well as gaining the appropriate planning consents. As a result, according to the SSA UK, larger operators now own or manage around 30% of facilities which translates to 40% of market share in terms of revenue and space. Currently Lok'nStore is the fourth largest operator in the UK.

Drivers of Demand for Self-storage

Demand for self-storage by both business and household customers is driven by a specific need based on changing circumstances as well as economic activity and business confidence.

For household customers their need is often linked to a life event where they will need space temporarily, for example to support a house sale, but increasingly householders are using storage on a semi-permanent basis to free up space at home or store belongings they don't have room for.

Business customers use self-storage for a variety of purposes including storage of goods, excess or seasonal stock, document archiving or storage of equipment and tools. Businesses tend to store for longer than household customers and take larger units, although they also take advantage of self-storage for temporary periods to support seasonal sales or office moves or refurbishments.

Lok'nStore's Opportunity in the Market

The Self-Storage Association UK (SSA UK) Annual Industry Survey 2019 notes that public awareness of and demand for self-storage is increasing. We know that on average customers chose a store within five miles of their home or business. With a pipeline of eight secured stores and a further six stores progressing through the acquisitions process, Lok'nStore is well placed to attract these customers and add further momentum to the growth of our sales and profits.

Combining the Group's competitive strengths (recognised brand, excellent customer service, rigorous cost control) and the attractive market dynamics of the storage sector (growing sector, under supply, resilience during economic downturn) with our strong balance sheet and flexible operating and ownership model (see our portfolio strategy on page 12), we believe Lok'nStore can take advantage of the opportunities presented and continue its growth without significantly increasing risk.

Our Business Model

Our overriding objective is to steadily increase the Cash Available for Distribution (CAD) enabling a predictable growth of the dividend from a strong asset base and conservatively geared balance sheet.

WHAT WE DO

- Buy (or lease) prominent sites
- Build (or refurbish) landmark, highly visible orange storage centres
- Offer clean, dry, secure storage to business and household customers

34

UK STORES CURRENTLY TRADING

HOW WE CREATE VALUE

- Take a flexible approach to site selection
- Increase our asset base
- Careful cost control
- Managed pricing strategy
- Earn fees from managing stores on behalf of others
- Carefully balanced use of leverage

£17 million

REVENUE

SHARING VALUE WITH OUR STAKEHOLDERS

SHAREHOLDERS

- High quality earnings
- Growing NAV
- Progressive dividend policy

12p

ANNUAL DIVIDEND PER SHARE

CUSTOMERS

- Easy to locate stores
- Friendly and high level customer service
- Wide range of storage solutions
- Transparent and open contracts

5 STAR

CUSTOMER REVIEWS ON TRUSTPILOT

OUR PEOPLE

- Development opportunities through the Lok'nStore Academy
- Uncapped bonus scheme for all
- Share ownership plans
- Strong health and safety approach

£440,000

PAID OUT IN STORE BONUSES TO STORE TEAMS (2018: £400,000)

Our Strategy

OUR OBJECTIVES	ACHIEVEMENTS IN 2019	STRATEGY IN ACTION
STEADILY INCREASE CASH AVAILABLE FOR DISTRIBUTION (CAD) PER SHARE	Cash Available for Distribution (CAD) per share up 8.8% to 18.95 pence (2018:17.42 pence).	**9.1%** increase in annual dividend to 12 pence per share
FILL EXISTING STORES AND IMPROVE PRICING	We developed the customer journey giving customers the ability to find and respond to previous quotes with one click. We focussed on developing our teams' sales and customer service through the Lok'nStore Academy. These actions resulted in conversion of new enquiries improving by 1% over the year.	**6.0%** Self-storage unit occupancy up **0.6%** Self-storage pricing up
ACQUIRE MORE SITES TO BUILD NEW LANDMARK STORES	Cardiff, Dover, Exeter and Ipswich stores opened in the year – all in prominent locations. Eight stores in planning or development.	**3** new sites acquired in Stevenage, Wolverhampton and Warrington
INCREASE THE NUMBER OF STORES WE MANAGE FOR THIRD PARTIES	Dover and Exeter managed stores opened during the year. We are developing a managed store in Gloucester and have three managed store sites with lawyers.	**5** managed stores in pipeline

Chief Executive Officer's Review

"Store visibility remains pivotal to our marketing efforts. Our **new landmark stores** are located in highly prominent locations and we continually invest in new signage and lighting at our existing stores."

Andrew Jacobs
Chief Executive Officer

Lok'nStore Group has had an excellent year successfully implementing all of our strategic objectives. Revenue, profits and asset values have all moved ahead steadily. Our rapidly expanding pipeline of new stores will substantially increase the proportion of our store space which is new or purpose-built and will add further momentum to the growth of sales and profits with plenty of new capacity contributing to growth over the coming years.

Robust Trading

Group revenue (Continuing Operations) for the year was £16.95 million, up 10.3% year on year (2018: £15.37 million) driven by occupancy increases in both old and new stores. This revenue growth led to an 11.5% increase in Group Adjusted EBITDA.

- Self-storage revenue £16.0 million up 9.0% (2018: £14.68 million)
- Adjusted Store EBITDA £8.99 million up 6.7% (2018: £8.42 million)
- Unit occupancy up 6.0%
- Unit pricing up 0.6%

Total Adjusted Store EBITDA in self-storage, a key performance indicator of profitability and cash flow of the business, increased 6.7% to £8.99 million (2018: £8.42 million). On a like for like basis[13], the overall Adjusted EBITDA margin across all stores was over one percentage point higher at 58.0% (2018: 56.9%) with the Adjusted Store EBITDA margins of the freehold stores at 65.4% (2018: 64.1%) and the leasehold stores at 43.1% (2018: 44.1%).

Over the course of the year unit occupancy rose by a healthy 6.0% and unit pricing edged ahead by 0.6%. Out of 34 stores open 18 were trading at above 70% occupancy. At the end of July 2019 33.3% of Lok'nStore's self-storage revenue was from business customers (2018: 33.9%) and 66.7% was from household customers, (2018: 66.1%). By number of customers 17.7% of our customers were business customers (2018: 17.8%) and 82.3% household customers (2018: 82.2%).

By the year-end we had 11 managed stores following the opening of the two new managed stores in Dover and Exeter, and the sale of our existing store in Crayford on a sale and manage back.

The average unexpired term of the Group's operating leaseholds is approximately 11 years and 0 months as at 31 July 2019 (11 years and 1 month: 31 July 2018). The leaseholds produced 24.8% of the total Adjusted Store EBITDA in the year (2018: 27.6%).

In the table on page 14 we show how the performance of the stores varies between freehold and leasehold stores. Currently 46.9% of Lok'nStore owned trading space is freehold, 24.6% is leasehold and 28.5% managed stores. Inevitably the leaseholds trade on lower margins due to the rent payable, but nevertheless the 43.1% margins achieved is substantial, and leads to a higher return on capital than the freehold stores which require much larger capital expenditure to buy the land and buildings. The freehold stores produce 75.2% of the Adjusted Store EBITDA and account for 89.7% of valuations (including secured pipeline stores).

When the secured pipeline is fully developed the freeholds will account for 53.6% of trading space, leaseholds will be 19.3% and managed stores 27.1%. This mix of tenures with their different risk and return characteristics provides strength in the balance sheet and opportunities to create value throughout the cycle, and is always driven solely by consideration of the operating business.

Chief Executive Officer's Review
continued

Portfolio Analysis and Performance Breakdown

As at 31 July 2019	Number of Stores	% of Valuation	% of Adjusted Store EBITDA	Adjusted Store EBITDA Margin (%)	% Lettable Space	When Fully Developed Number of Stores	When Fully Developed Total % Lettable Space
Freehold	15	79.5	75.2	61.8	46.9	21	53.6
Operating Leaseholds	8	10.3	24.8	43.1	24.6	8	19.3
Managed Stores	11	–	–	100	28.5	13	27.1
Total Stores Trading	34	–	–	–	–	42	–
Pipeline Stores	8*						
Owned	6	10.2	–	–	–	–	–
Managed Stores	2	–	–	–	–	–	–
Total Stores	**42**	**100**	**100**	**55.8**	**100**	**42**	**100**

* Applies to the 8 contracted stores only.

In the table below we show how the performance breaks down between the age brackets of the stores. Clearly older stores have had more time to fill up and produced 66.5% EBITDAR profit (earnings before interest, tax, depreciation, amortisation and rent) margins. Over time as new stores and pipeline sites go through their life cycle they will progress towards similar margins as the fully established stores and add substantially to revenues and profits.

Operating Performance at a Glance (Lok'nStore owned stores only)

Weeks Old	Contracted Pipeline	Under 100	100 to 250	Over 250	Total
Year Ended 31 July 2019					
Sales £'000		972	722	14,415	16,109
Stores Adjusted EBITDA £'000		304	452	8,230	8,986
EBITDA Margin (%)		**31.3%**	**62.6%**	**57.1%**	**55.8%**
Stores Adjusted EBITDAR £'000		308	452	9,581	10,341
EBITDAR Margin (%)		**31.7%**	**62.6%**	**66.5%**	**64.2%**
As at 31 July 2019 ('000 sq. ft.)					
Maximum Net Area	**355**	**193**	**49**	**945**	**1,542**
Freehold ('000 sq. ft.)	355	193	49	537	1,134
Short Leasehold ('000 sq. ft.)	–	–	–	408	408
Number Stores					
Freehold	6	4	1	10	21
Short Leasehold	–	–	–	8	8
Total Stores	6	4	1	18	29

Table covers Lok'nStore owned stores only.

In respect of the Farnborough Store (over 250 weeks) the total store revenue includes a £100,000 contribution receivable from Group Head Office.

9.0%
INCREASE IN STORAGE REVENUE

6.0%
INCREASE IN UNIT OCCUPANCY

6.7%
INCREASE IN ADJUSTED STORE EBITDA

Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 11.0% (2018: 4.0%) over the year accounting for 11.1% of self-storage revenues (2018: 11.0%).

Document Storage Business Sold

- Document storage business sold for £7.63 million cash

On 31 January 2019, our serviced document storage business, Saracen was sold for £7.64 million in cash. Saracen made a good profit every year under Lok'nStore's ownership and contributed £1.12 million to the Group's revenue and £0.25 million to its EBITDA in the six months to 31 January 2019.

For accounting purposes the disposal of the Saracen business constitutes a discontinued operation. Separate reporting of discontinued operations is important in providing users of financial statements with the information necessary to determine the effects of a disposal transaction on the ongoing operations of our business. Accordingly the unit's operating numbers and cash flow are excluded from the headline figures. Discontinued operations are shown separately as a single line on the Statement of Comprehensive Income as a profit on disposal (after tax) which combines Saracen's operating profit up to the date of disposal with the profit arising on its disposal. The profit on discontinued operations is then aggregated with profit on continuing operations in determining the Group's total net profit.

In the short term the disposal proceeds will be used to reduce overall Group borrowing and will improve all key banking ratios. In the medium term the disposal proceeds will be used to fund the ongoing investment into our highly accretive development pipeline of new self-storage centres, fulfilling the Company's objective of growing asset value by recycling capital from lower growth assets into high growth landmark stores.

Marketing

Store visibility remains pivotal to our marketing efforts. Our new landmark stores are located in highly prominent locations and we continually invest in new signage and lighting at our existing stores.

During the year our marketing efforts have continued to focus on the presentation of our buildings to attract passing traffic and internet marketing. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the Lok'nStore brand and generate a substantial proportion of our business. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new landmark stores to promote and enhance their visual prominence, and engage the local community.

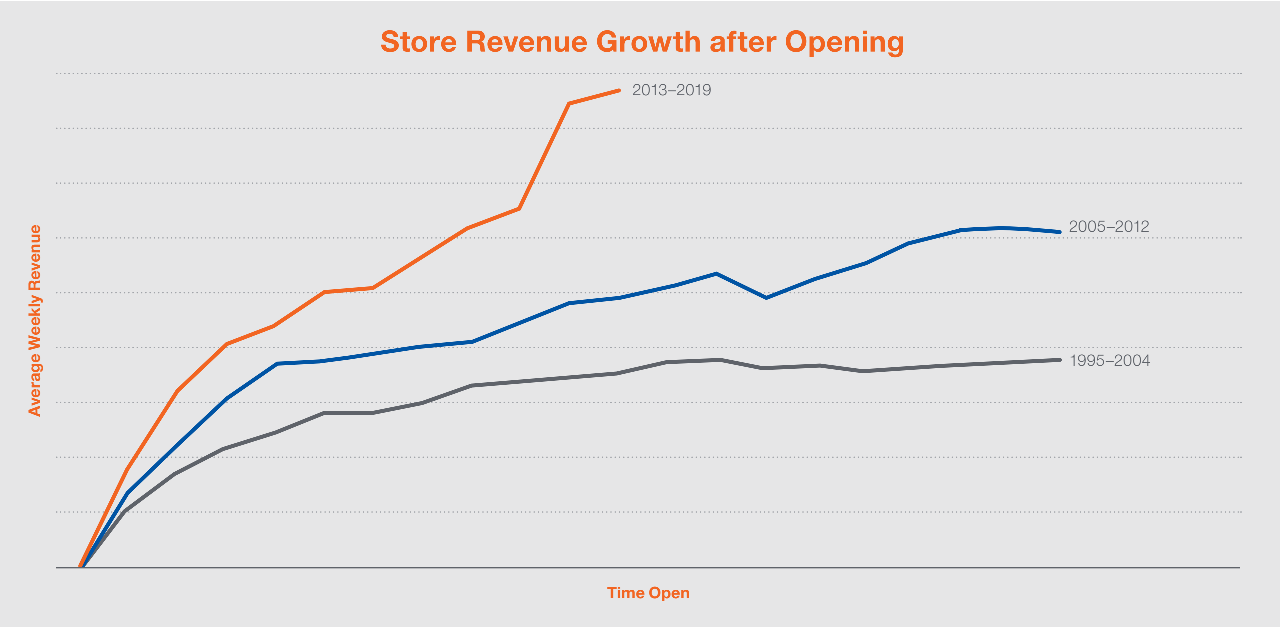
The internet continues to be the main media channel for our advertising. Our website at www.loknstore.co.uk is one of the most established self-storage websites in the UK. The website delivers a high level of customer experience across desktop, tablet and smartphone devices. This is a very dynamic area and we are committed to its continued development. We believe the internet provides a strong competitive advantage for the major operators such as Lok'nStore with relatively large marketing budgets.

Pipeline of New Stores

Against this background of ever improving operating performance we have invested £14.0 million in new store development this year and we have now seen a rapid increase in our new store pipeline to eight secured stores by the reporting date, which will take the total to 42 stores. These will all be purpose built landmark stores in highly prominent locations and will add substantially to the Group's capacity for revenue, profit and asset growth. We have six further store acquisitions progressing through the legal process.

Chief Executive Officer's Review
continued

The graph below shows the speed of fill-up of our stores broken down into their age groups. You can see that over time the stores have filled up faster with the most recently opened stores (on the left of the graph) filling fastest of all. We believe that this shows that the UK self-storage market is still in its infancy with low penetration and increased consumer awareness leading to faster fill. It also shows the strength of Lok'nStore's newly developed landmark store model.



Managed Stores

Lok'nStore manages an increasing number of stores for third party owners. Under this model Lok'nStore can provide a turnkey package for investors wishing to own trading self-storage assets. The investor supplies all the capital for the project which Lok'nStore manages. Lok'nStore will buy, build and operate the stores under the Lok'nStore brand and within our current management structure.

All of the operating expenses of the store are paid for by the third party out of the store revenue with Lok'nStore receiving various fees and performance bonuses. Lok'nStore has no costs directly associated with this function and no equity capital at risk. Therefore this activity generates a positive return at minimal risk increasing the overall risk adjusted return of the Group as a whole.

Notable in this year's accounts is the increase in management fees to £816,676 for this year, up 52.7% on last year. As the number of managed stores increases rapidly over the coming years the revenue from them will rise commensurately.

Future

Lok'nStore Group has had an excellent year successfully implementing our strategic objectives. We have created a strong platform for an exciting period of growth for Lok'nStore with revenue, profits and asset values all moving ahead at double digit growth rates.

Against this background of a strong performance from our existing stores, we have also achieved a notable increase in our pipeline to 14 new stores. This will add considerable momentum to sales and earnings growth.

Lok'nStore's strong operating performance and robust balance sheet underpin our strategy of new landmark store openings, positioning the Group well for future growth.

Andrew Jacobs
Chief Executive Officer
1 November 2019

Key Performance Indicators

What we mean when we say … (and why we use these Key Performance Indicators (KPIs))

In addition to IFRS accounting performance measures we use some Alternative Performance Measures (APMs) to help us understand how the underlying business is performing. The following table identifies those measures and explains what we mean when we use them and importantly why we use them and what they tell you about our business and performance.

1. **Continuing Operations –** The Group's document storage business was sold on 31 January 2019 and its disposal constitutes a discontinued operation. Separate reporting of discontinued operations is important in providing users of financial statements with the information necessary to determine the effects of a disposal on the ongoing continuing operations of our business. To ensure a clear separation of the financial performance of Continuing Operations, Discontinued Operations are shown separately on the Statement of Comprehensive Income as a profit on disposal (after tax) which combines operating profit with the profit arising on its disposal. The profit on discontinued operations is then aggregated with profit on continuing operations in determining the Group's total net profit.

2. **Group Adjusted EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation –** The measure is designed to give clarity on the recurring operating cash flow of the business stripping away non-cash charges, finance charges and tax. Adjusted EBITDA is defined as EBITDA before losses or profits on disposal, share-based payments, acquisition costs, exceptional items, finance income, finance costs and taxation.

3. **Exceptional Items –** refers to one-off items of a non-operational nature which arose during the year, often relating to asset disposals, and are unlikely to be recurring. (Refer to Note 2(c) of the Financial Statements).

4. **CAD – Cash Available for Distribution –** is calculated as Adjusted EBITDA less total net finance cost, less capitalised maintenance expenses, New Works Team costs and current tax. This measure is designed to give clarity to the capacity of the business to generate ongoing net operating cash that can be used to pay dividends to Shareholders or pay down debt. The calculation of the Cash Available for Distribution is set out in the Financial Review on page 24.

5. **Adjusted Total Assets –** The value of adjusted total assets of £201.7 million (2018: £181.4 million) is calculated by adding the independent valuation of the leasehold properties of £18.7 million (2018: £18.2 million) less their corresponding net book value (NBV) £4.0 million (2018: £2.7 million) to the total assets in the Statement of Financial Position of £187.0 million (2018: £165.9 million). This provides clarity on the significant value of the leasehold stores as trading businesses which under accounting rules on operating leases are only presented at their book values within the Statement of Financial Position.

6. **NAV – Net Asset Value per Share –** Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores (properties held under operating leases) and deferred tax divided by the number of shares at the year-end. The shares held in the Group's employee benefits trust and treasury shares are excluded from the number of shares. The calculation of the Net Asset Value per share is set out in the Financial Review on page 26.

7. **LTV – Loan to Value Ratio –** measures the debt of the business expressed as a percentage of total property assets giving a perspective on the gearing of the business. The calculation is based on net debt of £29.3 million as set out in Note 28(b) (2018: £32.3 million) as a percentage of the total properties independently valued by JLL and including development land assets totalling £181.2 million (2018: £162.8 million) as set out in the Business and Financial Review on page 26.

8. **Pipeline Sites –** means sites for new stores that we have either exchanged contracts on or have agreed heads of terms and are progressing with our lawyers towards completion. We now have 14 pipeline sites of which eight are contracted and six are currently with lawyers.

Key Performance Indicators
continued

9. **Adjusted Store EBITDA** is Group Adjusted EBITDA (see 2 overleaf) before the deduction of central and head office costs. This important information provides an insight into the underlying performance of the trading stores and shows the cash generating core of the business. Use of this metric enables us to provide additional information on store EBITDA contributions and the margins analysed between freehold and leasehold stores and according to the age of the stores. This analysis is set out in a table in the Chief Executive Officer's Review on page 14.

10. **Gearing –** refers to the level of a company's debt related to its equity capital, usually expressed in percentage form. It is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus Shareholders. Gearing can be measured by a number of ratios and we use the debt-to-equity ratio in this document. The calculation of the gearing percentage, also referred to as the net debt to equity ratio is set out in Note 17 of the Financial Statements.

11. **Group Adjusted EBITDAR –** EBITDAR is Earnings before interest, tax, depreciation amortisation and rent. The measure is designed to give clarity on the effect of the rent payable by leasehold stores and how its elimination enables an analytical comparison between freehold stores operating performance (which do not pay rent) and leasehold stores operating performance. This analysis is set out in a table in the Chief Executive Officer's Review on page 14.

12. **Cost Ratio –** calculates the ratio of the total operating costs of the business as set out on page 22 of the Financial Review, expressed as a percentage of total Group revenue (Note 1(a)), giving a perspective on the cost efficiency of the business when compared to the cost ratio of the previous year.

13. **LFL– Like for Like –** This measure is used to give transparency on improvements in the operating business unrelated to the opening of new stores or closure of old stores therefore giving visibility of the true trading picture. The like for like key performance measure is only used where its use is particularly relevant to illustrate a performance metric not otherwise apparent.

See also the Glossary on page 98.

Property Review

Store and Portfolio Strategy

Our experience in operating our stores in the UK self-storage industry is that each operating store is a profitable store in its own right. Therefore our strategy is to continue to increase the number of stores we operate without stretching our balance sheet. The core focus of this strategy is the acquisition of highly prominent freehold locations in busy towns and cities in England where we will build well branded landmark stores.

Flexible Approach to Site Acquisition

All of the projects noted below are part of our strategy of actively managing our operating portfolio to ensure we are maximising both trading potential and value. This includes strengthening our distinctive brand, increasing the size and number of our stores and replacing stores or sites where it will increase Shareholder value.

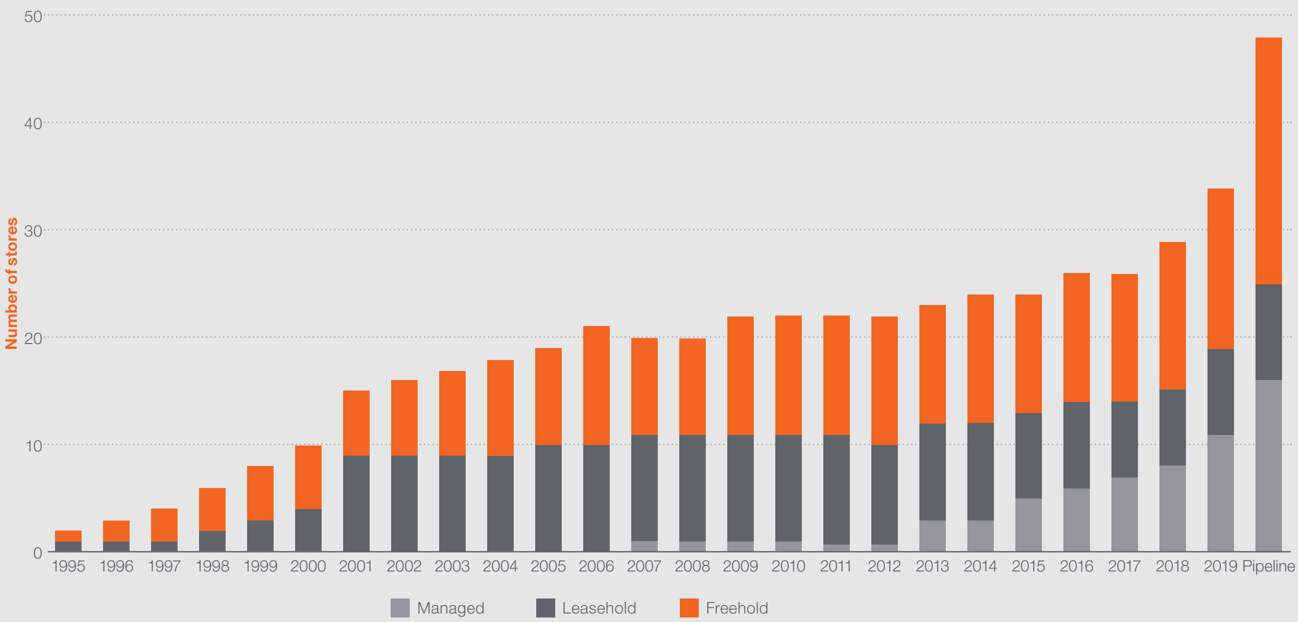
We prefer to own freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores. However we are happy to take leases on appropriate terms and benefit from the advantages of a lower entry cost, with further options to create value later in the store's development. We also consider selling established stores on sale and manage back contracts in order to recycle the capital and protect the balance sheet. Indeed some of our stores have been freehold, leasehold and managed stores during their operating life cycle! Our most important consideration is always the trading potential of the store rather than the property tenure.

The table below illustrates the rapid growth of store numbers and the changing tenure mix over time. Noteworthy is the growth of managed stores over recent years.

Lok'nStore now operates 34 stores of which it owns 23. Of the 23 stores Lok'nStore owns 15 are freehold and 8 stores are held under commercial leases with all of our leasehold stores inside the Landlord and Tenant Act providing us with a strong security of tenure. The average unexpired term of the Group's operating leaseholds is approximately 11 years and 0 months as at 31 July 2019.

A further eight stores are under development of which six will be owned freehold by Lok'nStore. There are six further sites with lawyers.

Lok'n Store Number of Stores Trading Since Inception (with pipeline of secured stores and stores with lawyers)



Growth from New Stores and More New Stores to Come

Lok'nStore's strong operating cash flow, solid asset base, and tactical approach to its store property portfolio provide the Group with opportunities to improve the terms of its property usage in all stages of the economic cycle. Our focus on the trading business gives us many opportunities and our property tenure is always driven by the requirements of the trading business.

Bedford

The planning process for a 55,000 sq. ft. purpose built store is progressing. The site is in a prominent location next to a retail park on the south east side of Bedford.

Bournemouth

An 80,000 sq. ft. purpose built store has been designed for this site in Castle Lane. The site is in a highly prominent location adjacent to a major food retailer and Bournemouth Hospital.

Cheshunt

In Cheshunt, Hertfordshire, the Company acquired a 2.2-acre development site in a prominent location facing the busy A10 and in the vicinity of a major retail park. A 60,000 sq. ft. landmark store is currently being designed.

Leicester

The frame of this 60,000sq ft. landmark store has been built and the store will open in 2020. The store is in a highly prominent location opposite a major food retailer in the heart of Leicester's busy retail district.

Gloucester

Construction of this 40,000sq ft landmark store is well underway. The store will be a Lok'nStore branded store and Lok'nStore will receive management and performance fees for managing the store on behalf of its new owners. It will open early in 2020.

Stevenage

On Friday 21 December 2018 contracts were exchanged on a site in Stevenage, Hertfordshire. The site is in a prominent location in an established commercial and retail area. The 60,000 sq. ft. store is currently being designed.

Wolverhampton

Designs for a 50,000 sq. ft. store are currently underway for a store in Wolverhampton. The site is opposite a busy retail park on the North East of Wolverhampton.

Warrington

On Friday 21 June 2019 contracts were exchanged on a site in Warrington, Cheshire. The site is in an exceptional location in the heart of Warrington, directly opposite Tesco and the Warrington rugby league stadium. The planning process for a striking 60,000 square foot landmark store is underway.

New Stores Opened During the Year

Cardiff

The new store in Cardiff opened in February 2019. The store is 45,000 sq. ft. and located in a busy retail area to the South East of the City.

Exeter

The new Managed store in Exeter opened on 13 April 2019.

Acquisition of The Box Room in Hedge End, Southampton

The Box Room was acquired for £1.13 million. It operates from a leasehold unit in the thriving commercial area of Hedge End, Hampshire. The acquisition secures a profitable business with further opportunities to increase sales. The rebranding project is complete. The new 15 year lease is inside the Landlord & Tenant Act 1954 and has been secured on attractive terms with 12 months' initial rent free period.

Ipswich

Our 40,000 sq. ft. landmark store in Ipswich is located on Futura Park a relatively new but established retail destination to the South East of Ipswich town centre. The store sits between a supermarket and car dealership. Works were completed and the store opened for trading on 31 July 2019.

Portfolio Enhancements

Sale and Manage Back of Crayford store

On 28 February 2019, we announced the sale and manage back of our Crayford store at its JLL valuation of £7.52 million (£7.42 million net cash).

The store has been sold on a sale and manage back basis as part of the Company's strategic objective to recycle capital from older, lower growth assets to new, high growth landmark stores. Lok'nStore will continue to manage the store maintaining the operational footprint of the business, and will receive management and performance fees. Because the sale price represents the JLL independent external valuation of the store and also the store's net book value (fair value) as at 31 July 2018 so there will be no impact on net asset value.

5
NEW STORES TRADING

8
LANDMARK STORES SECURED

27%
INCREASE IN TRADING SPACE

Sale of Land at Rear of Southampton Store

Following the development and opening of the new Southampton store there remained land to the rear of the building no longer required for further store expansion. This land was sold for £0.8 million in October 2018. The Directors had placed a value in the financial statements to 31 July 2018 on this land of £0.5 million.

Maidenhead – Acquisition of Freehold interest

On 29 March 2019, we acquired the freehold interest in our existing long leasehold from the Royal Borough of Windsor and Maidenhead.

More Pipeline Sites with Lawyers

Currently we have six more pipeline sites with lawyers.

More Managed Stores

One of the features of Lok'nStore's strategy is developing our management services to third party self-storage owners. Our existing Crayford store was sold on a sale and manage back contract and so became a managed store making 12 stores under management contracts with 11 of these open and trading and Gloucester under development.

Rather than receiving the operating income of the managed stores, Lok'nStore receives a standard monthly management fee, a performance fee based on certain objectives and fees on any successful exits. We also charge acquisition, planning and branding fees. This allows Lok'nStore to earn revenue from our expertise and knowledge of the self-storage industry without committing our capital by selling our expertise in storage solutions management, operating systems and marketing, leveraging our brand and skill rather than retaining a proprietary interest in the land. We can amortise various fixed central costs over a wider operating base and drive more visits to our website moving it up the rankings and benefiting all the stores we both own and manage.

This strategy improves the risk adjusted return of the business by increasing the operating footprint, revenues and profits without committing capital.

From a very low base Lok'nStore has grown this managed store revenue to around £0.82 million currently (up 52.7%) but with the pipeline of secured sites and further additional sites anticipated for the foreseeable future we expect this revenue stream to continue to grow strongly.

Management Fees	Group Year Ended 31 July 2019 £	Group Year Ended 31 July 2018 £
Base management fees	352,814	283,524
Administration and compliance fees	40,500	30,500
Enhanced Management fees	168,362	66,864
Construction & Advisory fees	55,000	–
Supplementary fees	200,000	154,000
Total management fees	816,676	534,888

When this contracted development pipeline of eight sites has been completed Lok'nStore will operate from 42 stores including 13 managed stores. In addition six further new store opportunities are progressing with lawyers.

The eight secured pipeline sites represent a combination of six owned and two managed stores. These will add 455,000 sq. ft. of new capacity adding 45.6% to freehold trading space and 21.1% to the managed store portfolio delivering a 27.4% increase in overall trading space.

Growing Store Property Assets and Net Asset Value

- Adjusted Total Assets £201.7 million[5] up 11.2% on last year (2018: £181.4 million)
- Adjusted Net Asset Value of £5.33 per share up 11.1% on last year (2018: £4.80 per share)

Lok'nStore has a strong and growing asset base. Our freehold and operating leasehold stores have been independently valued by Jones Lang LaSalle (JLL) at £162.7 million (Net Book Value (NBV) £57.9 million) as at 31 July 2019 (2018: £146.2 million: NBV £55.4 million). The change in property valuation is referred to further in the Financial Review section of the Strategic Report and is detailed in Note 10(b) of the Notes to the Financial Statements.

Adding our stores under development at cost and land and buildings held at Director valuation, our total property valuation is £183.7 million (2018: £166.4 million).

The increase in the property values of properties which were also valued last year was 9.1% (2018: 6.33%).

Financial Review

£16.95m

GROUP REVENUE (CONTINUING OPERATIONS) UP 10.3%

"The sale of our document storage business and the sale and manage back of our Crayford store demonstrates an efficient capital allocation as we reinvest these proceeds into **fast growing** landmark stores."

Ray Davies
Finance Director

Record Financial Results on All Measures

- Group Revenue £16.95 million up 10.3% (2018: £15.37 million)
- Group Adjusted EBITDA £7.39 million up 11.5% (2018: £6.63 million)
- Operating profit (before exceptional items[3]) £5.06 million up 11.1% (2018: £4.55 million)

The Group has again delivered strong financial results.

Earnings per Share

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

Earnings per share	Group 2019 £'000	Group 2018 £'000
Profit for the financial year – Continuing Operations	3,380	3,304
Profit for the financial year – Discontinued Operations	2,182	453
Total profit for the financial year attributable to owners of the parent	5,562	3,757

	2019 No. of Shares	2018 No. of Shares
Weighted average number of shares		
For basic earnings per share	28,921,229	28,792,029
Dilutive effect of share options[1]	481,848	490,064
For diluted earnings per share	29,403,077	29,282,093

Earnings per share	Group 2019 Pence	Group 2018 Pence
Basic		
Continuing Operations	11.69	11.48
Discontinued Operations	7.55	1.57
Total basic earnings per share	19.24	13.05
Diluted		
Continuing Operations	11.50	11.28
Discontinued Operations	7.42	1.55
Total diluted earnings per share	18.92	12.83

623,212 (2018: 623,212) shares are held in the Employee Benefit Trust (see Note 27).

1 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 21 to 24.

Purchase of Treasury Shares

The Group did not buy or sell any treasury shares during the year. We are proposing to renew our ongoing authority to buy back shares at this year's AGM to ensure the Group continues to have flexibility to make purchases should it be considered to be in the best interests of Shareholders to do so.

Operating Costs

- Cost ratio[12] reduced to 56% (2018: 57%)

We have a strong record of reducing our Group operating costs each year. We noted in our 2017 year end results that although we maintain a disciplined approach to costs, they will likely rise in line with new stores opened.

Group operating costs from continuing operations amounted to £9.4 million for the period, a 9.6% increase year on year (2018: £8.6 million) which derived from higher aggregate costs as we opened new landmark stores. We are also spending more on internet marketing which is generating an ever increasing proportion of our customer enquiries. Nevertheless our tight discipline on costs has enabled us to reduce our cost ratio from 57% to 56%.

£7.39m

GROUP ADJUSTED EBITDA UP 11.5%

£5.06m

OPERATING PROFIT (BEFORE EXCEPTIONAL ITEMS[3]) UP 11.1%

In respect of property costs which mainly constitute rent and rates, because we had previously negotiated rate reductions on some of the newer stores, rates on a same store basis have remained broadly static. On a same store basis rents were also static. Utility costs were higher as a result of a general market trend of increasing energy tariffs.

Staff costs increased by 7.3% as we staffed the new stores and paid performance bonuses to all our store colleagues for strong sales growth. We also incurred additional national insurance costs arising on the exercise of employee share options.

The principal increase in overhead costs has been driven by a higher level of legal and professional costs due to work on rent reviews, business rate reductions and abortive costs arising on prospective store acquisitions that did not proceed.

Overall future cost increases will be driven by the expansion of the business and we are seeing little other cost pressures.

Group	Increase/ (Decrease) in Costs %	2019 £'000	2018 £'000
Property costs	10.3	4,022	3,647
Staff costs	7.3	4,111	3,832
Overheads	15.3	1,244	1,079
Total	9.6%	9,377	8,558

Strong Balance Sheet, Efficient Use of Capital, Conservative Level of Debt

- Increase in £50 million bank facility to £75 million on similar terms with accordion up to £100 million
- £15.1 million invested in new store pipeline (2018: £21.7 million)
- Net debt down 9.3% to £29.3 million (2018: £32.3 million)
- Loan to Value Ratio (LTV) down to 16.1% (2018: 19.7%)
- Cost of debt averaged 2.11% in the year on £43.0 million drawn (2018: 1.85%)

Lok'nStore is a robust business with an excellent credit model, low debt and gearing and which is strongly cash generative from an increasing asset base. Its increased bank facilities at low rates of interest position the business well for the new store development programme.

Increase in £50 million Banking Facility to £75 million

In April 2019, the Group increased its bank facility by £25 million to £75 million, with a further £25 million accordion option taking the facility to £100 million. The increased facility will provide funding for new landmark site acquisitions and working capital to support the Group's ambitious growth plans.

The facility is a combined agreement with Lloyds Bank and The Royal Bank of Scotland plc and runs until 2024 with an option for a further two one year extensions and is closely aligned to the terms of the Group's previous facility. The interest rate is set at the London Inter-Bank Offer Rate (LIBOR) plus a 1.50%–1.75% margin based on a loan to value covenant test.

The cost of our debt on £43.0 million drawn (gross) averaged 2.11% in the period.

The Group is not obliged to make any repayments prior to the facilities expiration in April 2024 and there are no additional bank covenants attaching to this new increased facility.

Lok'nStore is a robust business which generates an increasing cash flow from its strong asset base with a low LTV of 16.1% and a low average cost of debt of 2.11%. With its new banking facility the business has a firm base for growth. The value of the Group's property assets underpins a flexible business model with stable and rising cash flows and low credit risk.

Management of Interest Rate Risk

Under the current bank facility the Group is not committed to enter into hedging instruments but rather to keep such matters under review. Given our relatively low level of indebtedness, low Loan to Value ratio and high interest cover, combined with the wider uncertainties within the economy, it is not the intention of the Group to enter into an interest rate hedging arrangement at this time although the Board continues to keep this under regular review.

Cash Flow and Financing

At 31 July 2019 the Group had cash balances of £13.6 million (2018: £5.0 million). Cash inflow from operating activities before tax and investing and financing activities was £8.1 million (2018: £7.0 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a revolving credit facility which runs to 2024. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £32.0 million (2018: £12.7 million), excluding a further undrawn £25 million accordion facility.

Gearing

At year end there was £43.0 million of gross borrowings (2018: £37.3 million) representing gearing of 25.0% (2018: 31.3%) on net debt of £29.3 million (2018: £32.3 million) – refer to Note 17. The leaseholds are stated at depreciated historic cost in the statement of financial position. If these leaseholds are adjusted for the uplift in value to their Jones Lang LaSalle (JLL) valuation, gearing drops to 22.2% (2018: 27.2%). If the deferred tax liability carried at year-end of 22.4 million (2018: £19.7 million) is excluded gearing drops further to 19.0% (2018: 23.4%).

Strong Cash Flow Supports 9.1% Dividend Increase

- Annual dividend 12 pence per share up 9.1% (2018: 11 pence per share)
- Cash Available for Distribution (CAD) from Continuing Operations £5.49 million up 9.2% (2018: £5.03 million)
- Cash Available for Distribution (CAD) of 18.95 pence per share (2018: 17.42 pence per share)
- 8.8% Increase in CAD per share over last year

Cash Available for Distribution (CAD)

Cash Available for Distribution (CAD) provides a clear picture of ongoing cash flow available for dividends. To illustrate this fully the table below shows the calculation of CAD.

Analysis of Cash Available for Distribution (CAD)

	Year Ended 31 July 2019 £'000	Year Ended 31 July 2018 £'000
Group Adjusted EBITDA (per Statement of Comprehensive Income)	7,393	6,633
Less: Net finance costs[1]	(903)	(537)
Capitalised maintenance expenses	(99)	(80)
New Works Team	(90)	(149)
Current tax (Note 7)	(811)	(837)
Total deductions	(1,903)	(1,603)
Cash Available for Distribution	5,490	5,030
Increase in CAD over last year	9.2%	
	Number	**Number**
Closing shares in issue (less shares held in EBT)	28,960,574	28,875,403
CAD per share	18.95p	17.42p
Increase in CAD per share over last year	8.8%	

1 Net finance costs represent finance costs paid per the cash flow statement of £0.94 million less bank interest received to give the true cash flow effect (excluding the one-off payment of the arrangement fee on the new bank facility).

Total CAD has increased by 9.2% as a result of higher EBITDA profit and despite a higher net finance charge.

Capital Expenditure and Capital Commitments

The Group has grown through a combination of new site acquisition, existing store improvements and the purchase of the Box Room in Hedge End, Southampton. Capital expenditure during the year totalled £14.0 million (2018: £21.94 million) plus £1.13 million in cash for the purchase of the Box Room.

This was primarily the purchase of our Leicester and Wolverhampton sites and exchanged contracts on our Stevenage site and completion of construction works at our development sites in Gillingham and Wellingborough, ongoing construction works at our Leicester store and completing works at our Cardiff and Ipswich stores which are now open and trading. Costs relating to the planning and pre-development works on our Bournemouth, Bedford, and Cheshunt sites also featured. The freehold of our existing Maidenhead store, previously held on a long lease, was also acquired.

The Group has an active store development programme and in accordance with IAS 23 has material qualifying assets that take a substantial period of time to develop from acquisition to ultimate opening. Accordingly borrowing costs of £430,321 (2018: £197,209) have been capitalised in the current year that are directly attributable to the acquisition, construction and fit-out of these qualifying store assets. £332,326 of the total amount is carried in development property assets and £97,994 is carried in land and buildings following the opening of the Gillingham and Wellingborough stores.

The Group has capital expenditure contracted but not provided for in the financial statements of £5.56 million (2018: £3.4 million).

Statement of Financial Position

Net assets at the year-end were £117.2 million up 13.5 % (2018: £103.3 million). Freehold properties were independently valued at 31 July 2019 at £144.0 million up 12.5% (2018: £128.0 million). Refer to the table of property values below.

Taxation

The Group will pay tax on its earnings and has made a current tax provision of £0.81 million (2018: £0.84 million), an effective tax rate of 19% (2018: 20%). The deferred tax provision is calculated at forward corporation tax rates of 17% and is substantially a tax provision against the potential crystallisation (sales) of revalued properties and past 'rolled over' gains and amounts to £22.4 million (2018: £19.7 million) – see Note 19.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

It is the Group's policy to commission an independent external valuation of its properties at each financial year-end.

Our 15 freehold properties are held in the statement of financial position at fair value and have been valued by JLL. Refer to Note 10(b) – property, plant and equipment and also to the accounting policies for details of the fair value of trading properties.

The valuations of the leasehold stores held as 'operating leases' are not taken onto the statement of financial position. However these have also been valued and these valuations have been used to calculate the adjusted net asset value position of the Group. The value of our operating leases in the valuation totals £18.73 million (2018: £18.20 million) and we have reported by way of a note the underlying value of these leasehold stores in our revaluations and adjusted our Net Asset Value (NAV) calculation accordingly to include their value. This ensures comparable NAV calculations.

A deferred tax liability arises on the revaluation of the properties and on the rolled-over gain arising from the disposal of some trading stores. It is not envisaged that any tax will become payable in the foreseeable future on these disposals due to the availability of rollover relief. It is not the intention of the Directors to make any significant disposals of operational stores, although individual disposals may be considered where it is clear that added value can be created by recycling the capital into other store opportunities.

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

Financial Review continued

Analysis of Total Property Value

	No of Stores/Sites	31 July 2019 Valuation £	No of Stores/Sites	31 July 2018 Valuation £
Freehold stores valued by JLL[1]	15	144,000,000	14	128,000,000
Short leasehold stores valued by JLL[2]	8	18,725,000	7	18,200,000
Freehold land and buildings at Director valuation[3]	1	2,509,070	1	3,603,013
Subtotal	24	165,234,407	22	149,803,013
Sites in development at cost[4]	6	18,441,750	7	16,568,961
Total	30	183,675,820	29	166,371,974

1 Includes related fixtures and fittings (refer to Note 10(b).

2 The seven leaseholds valued by JLL are all within the terms of the Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the leasehold stores valued was 11 years and 0 months at the date of the 2019 valuation (2018 valuation: 11 years and 1 month).

3 For more details refer to Note 10(b) – Directors valuation.

4 Includes £332,326 of capitalised interest during the year.

Total freeholds account for 89.8% of property valuations (2018: 89.1%).

Significant Increase in Adjusted Net Asset Value per Share

- Adjusted Net Asset Value per share up 11.1% to £5.33 (2018: £4.80)

Adjusted Net Assets per Share are the net assets of the Group 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 benefits trust (own shares held) and in treasury (zero) are excluded from the number of shares.

At July 2019 the adjusted net asset value per share (before deferred tax) increased 11.1% to £5.33 from £4.80 last year. This increase is a result of higher property values on our existing stores as well as the maiden valuations on our new stores in Cardiff, Ipswich and Hedge End as the strength of our landmark stores is recognised, combined with cash generated from operations, offset in part by an increase in the shares in issue due to the exercise of share options during the year.

Analysis of net asset value (NAV) £'000	Group 31 July 2019 £'000	Group 31 July 2018 £'000
Net assets	117,158	103,251
Adjustment to include operating/short leasehold stores at valuation		
Add: JLL operating leasehold valuation	18,725	18,200
Deduct: leasehold properties and their fixtures and fittings at NBV	(3,905)	(2,691)
	131,978	118,760
Deferred tax arising on revaluation of leasehold properties[1]	(2,519)	(2,636)
Adjusted net assets	129,459	116,124

Shares in issue	Number ('000s)	Number ('000s)
Opening shares in issue	29,499	29,303
Shares issued for the exercise of options	85	196
Closing shares in issue	29,584	29,499
Shares held in EBT	(623)	(623)
Closing shares for NAV purposes	28,961	28,876
Adjusted net asset value per share after deferred tax provision	£4.47	£4.02

Adjusted net asset value per share before deferred tax provision	Group 31 July 2019 £'000	Group 31 July 2018 £'000
Adjusted net assets	129,459	116,124
Deferred tax liabilities and assets recognised by the Group	22,385	19,735
Deferred tax arising on revaluation of leasehold properties[1]	2,519	2,636
Adjusted net assets before deferred tax	154,363	138,495
Closing shares for NAV purposes	28,961	28,876
Adjusted net asset value per share before deferred tax provision	£5.33	£4.80

1 A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included, calculated by applying a tax rate of 17% (2018: 17%). 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

The business operates within the UK self-storage sector which is still relatively immature. With a low loan to value and flexible bank facilities through to 2024 this market presents an excellent opportunity for further growth of the business. Recently opened landmark stores and our strong pipeline of more landmark stores demonstrate the Group's ability to use those strengths to exploit the opportunities available.

IFRS Update

IFRS 16 Leases

Although not relevant for the year under review, when applied IFRS 16 will represent a significant change to the way that the Group will prepare its financial statements. The effective date of adoption is for accounting periods commencing after 1 January 2019 and the standard will therefore apply to Lok'nStore's financial statements for the year ended 31 July 2020.

Nevertheless it is important to give the users of our financial statements sufficient overview of the effects of IFRS 16 on the profit and loss, balance sheet, financial performance and cash flows of the Group as a significant lessee in respect of our leased stores.

IFRS 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts.

The Statement of Financial Position: The Group's operating leases on its leased stores will be recognised as a 'right of use asset' and as a corresponding liability at the year–end. Each lease payment is allocated between the liability and finance cost. The finance costs are charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining liability for the period. The right-of-use asset is depreciated on a weighted depreciation charge based on the individual lease term of the separate operating leases. Assets and liabilities arising from a lease will initially be measured on a present value basis which will include the fixed rental payments less any lease incentives receivable. If the interest rate implicit in the lease cannot be readily determined the lease payments will be discounted by the Group's incremental borrowing rate (cost of debt) to obtain an asset of similar value over a similar term with similar security. Right of use assets will be measured at cost comprising the initial measurement of the lease liability plus any initial direct costs (if any). The Group's current operating lease commitments are reported in Note 29.

The Statement of Profit or Loss: This will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally the rent operating expense currently reported in these financial statements at £1.36 million (2018: £1.19 million) will be replaced with interest and depreciation as a consequence of the 'capitalisation effect' of the leases, so the Group's key metric of Adjusted EBITDA will increase significantly by the removal of the rent expense from the operating profit and loss. Other performance measures including Operating Profit will also increase although reported interest and depreciation will be higher.

The Consolidated Statement of Cash Flows: While overall underlying cash flow is unaffected by the changes the presentation within the Consolidated Statement of Cash Flows will change. Reported operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities.

The effect on financial ratios such as gearing or leverage will be to cause them to rise as the lease liability now forms part of net debt.

To give a broad overview of the numerical effect on adoption next year of IFRS 16 as it would apply to the current year and comparative numbers we have:

	Group 31 July 2019 £'000	Group 31 July 2018 £'000
Rents payable under operating leases (Refer to Note 5)	1,356	1,191

The Present Value of all future operating lease payments is then calculated using 2.22% which is the effective cost of debt as the discount rate. This calculates an opening Right of Use Asset (ROU) as at 1 August 2017 of £14.83 million. This is also the opening value of the lease liability following the capitalisation of the leases.

After the application of a weighted depreciation charge based on the individual lease term of the separate operating leases and the imputation of an interest charge at 2.22% as part of the amortisation of the lease liability the relevant extracts from the financial statements are as follows:

Statement of Financial Position (extract)	Group 31 July 2019 £'000 IFRS 16	Group 31 July 2019 £'000 IAS 17	Group 31 July 2018 £'000 IFRS 16	Group 31 July 2018 £'000 IAS 17
Right of Use Asset (ROU)	12,396	–	13,617	–
Equity – accumulated effect of restatement	535	–	359	–
	12,931	–	13,976	–
Lease Liability				
Amounts due within one year	1,230	–	1,045	–
Amounts due in one to two years	1,257	–	1,230	–
Amounts due in three to five years	3,225	–	3,583	–
Amounts due in more than five years	7,219	–	8,118	–
	12,931	–	13,976	–

Statement of Comprehensive Income (extract)	Group 31 July 2019 £'000 IFRS 16	Group 31 July 2019 £'000 IAS 17	Group 31 July 2018 £'000 IFRS 16	Group 31 July 2018 £'000 IAS 17
Operating lease expense	(1,356)	–	(1,191)	–
Depreciation of Right of Use Asset (ROU)	1,221	–	1,221	–
Interest charged on lease liability	311	–	329	–
Impact on Comprehensive Income	(176)	–	(359)	–

Statement of Comprehensive Income (extract)	Group 31 July 2019 £'000 IFRS 16	Group 31 July 2018 £'000 IFRS 16
Increase in EBITDA	1,356	1,191
Increase / (decrease) in operating profit	135	(30)
Decrease in PBT	(176)	(359)

The application of IFRS 16 relates to the Groups property leases. The Group has no leases on any other types of assets.

The Group will apply a single discount rate equivalent to its effective cost of debt.

For more detailed information on the Groups Commitments under operating leases refer to Note 29 (Commitments under operating leases).

Principal Risks and Uncertainties

Principal Risks and Uncertainties in Operating our Business

Risk management has been a fundamental part of the successful development of Lok'nStore. The process is designed to improve the probability of achieving our strategic objectives, keeping our employees safe, protecting the interests of our Shareholders and key stakeholders, and enhancing the quality of our decision-making through understanding the risks inherent in both the day-to-day operations and the strategic direction of the Group as well as their likely impact.

Management of our risks helps us protect our reputation which is very important to the ability of the Group to attract customers, particularly with the growth of social media. 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. We operate strict Health and Safety policies and procedures and more information on these can be found on page 34.

Our Risk Management Governance

The Board has overall responsibility for the management of the Group's risks. As the Group's strategic direction is reviewed and agreed the Board identifies the associated risks and works to reduce or mitigate them using an established risk management framework in conjunction with the Executive management team. This is a continuing and evolving process as we review and monitor the underlying risk elements relevant to the business.

Risk Management Framework

The risk register covers all areas of the business including property, finance, employees, insurance, customers, strategy, governance and disaster recovery. The risks are categorised by risk area and rated based on a combination of 'likelihood' and 'consequences and impact' on the business. The combination of these two becomes the 'risk factor' and any factor with a rating over 15 is reported to the Board.

Risk Management Team

Ray Davies, Group Finance Director, is the Board member responsible for ensuring that the risk management and related control systems are effective and that the communication channels between the Board and the Executive Management team are open and working correctly. The Executive Management Team is responsible for the day to day management of the risk factors. Responsibility for identifying, managing and controlling the risk is assigned to an individual as shown on the risk register depending on the business area. Reporting against the risks forms part of the monthly Executive Management Meeting and the risk factor may be amended if applicable. There are also sub-committees for particular risk areas which meet regularly. The Risk Management and Reporting Structure is shown below.

Our Risk Management and Reporting Structure

THE BOARD

Reviews Risk Register in full twice a year

Considers specific risk areas as raised by the Executive Board

EXECUTIVE BOARD COMMITTEE

Reviews risks at monthly Executive management meetings and if material requests for the Board to consider risk at next scheduled Board Meeting (or earlier if necessary)

CAPEX COMMITTEE

Meets Monthly

Manages proposed capital expenditure, actual spend, rolling capex requirements

PROPERTY RISK COMMITTEE

Meets Quarterly

Considers: Risks associated with properties including Health & Safety

Environmental Impact

Principal Risks

The principal risks our business faces and our key mitigations are outlined in the table below.

Risk	Description	Key Mitigation
Interest Rate and Liquidity Risk	The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk (for details please see Note 17 on page 84).	• Regular review by the Board (full details are set out in the Financial Review, page 22). • Debt and interest are low relative to assets and earnings. • Could reduce debt, if required, by executing 'Sale and Manage-Back' arrangements on mature stores.
Tax Risk	Changes to tax legislation may impact the level of corporation tax, capital gains tax, VAT and stamp duty land tax which would in turn affect the profits of the Company.	• Regular monitoring of changes in legislation. • Use of appointed professional advisers and trade bodies.
Property Valuation Risk	The external independent valuations of the stores is sensitive to both operational trading performance of the stores and also wider market conditions. It follows that a reduction in operational performance or a deterioration of market conditions could have a material adverse impact on the Net Asset Value (NAV) of the Group.	• Regular monitoring of any changes in market conditions and transactions occurring within our marketplace. • Use of independent professional valuers expert in the self-storage sector. • Past experience from the financial crisis of 2008 shows the sector has been resilient to a market downturn. • Store properties are all UK based and predominately located in the affluent South of England and therefore not exposed to overseas/international/currency risks etc. • Strong operational management teams with the skills, experience and motivation to continue to drive operational performance.
Property Acquisition	Acquiring new sites is a key strategic objective of the business but we face significant competition from other uses such as hotels, car showrooms and offices as well as from other self-storage operators.	• We hold weekly property meetings to manage the search process and property purchases. • Use of property acquisition consultants. • Regular communication with agents. • Attendance at industry relevant property events.
Planning Permission	The process of gaining planning permissions remains challenging.	• Where we can we acquire sites subject to planning. • We work with an established external planning consultant. • Our property team has over 20 years' experience.
Construction	Poor construction may affect the value of the property and/or the efficient operation of the centre.	• We use a design and build contract with a variety of established contractors. • We use external project managers. • All projects are overseen by our property team which has over 20 years' experience.

Principal Risks and Uncertainties continued

Principal Risks continued

Risk	Description	Key Mitigation
Maintenance/ Damage	Damage to properties through poor maintenance or flood or fire could render a centre inoperable.	• Regular site checks by team members. • Rolling maintenance plan for all stores. • Comprehensive disaster recovery plan. • Appropriate insurance cover.
Increased Competition	An increasing number of competitors in the industry may negatively impact Lok'nStore's existing operations. (e.g. pricing/available sites).	• Established criteria for site selection including: – Prominent locations – High visibility – Distinctive designs and bright orange elevations and strong signage to attract customers • Continued investment in internet marketing. • Ensure high levels of customer service through training and monitoring.
Employee Retention	Loss of employees may affect our ability to operate our stores and provide the high levels of customer service expected.	• Aim to offer a good work/life balance and career development. • Regular reviews of remuneration levels against market. • Achievable bonus systems. • Generous Employee Share Schemes. • High quality training via Lok'nStore Academy (for further information see page 33). • New Intranet for improved communications. • Established Employee rewards program.
IT System Breach	A breach of our IT systems might adversely affect the operations of the business and our reputation.	• Strong and regularly reviewed IT security systems. • Well communicated policies and procedures for handling and managing a systems breach.

Corporate Sustainability Report

4005 hours
OF ACADEMY TRAINING

Corporate and Social Responsibilities

Lok'nStore conducts its business in a manner that reflects honesty, integrity and ethical conduct. Our Corporate Sustainability Report sets out our environmental policy and how we manage our impact on the environment and our policies and principles in relation to our responsibilities to stakeholders including suppliers, customers and employees.

We believe that the long-term success of our business is best served by respecting the interests of all of 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. A full assessment is set out below in our Environmental Policy.

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 a substantial amount 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.

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 40 days (2018: 40 days).

Employees

At 31 July 2019 we had 161 employees (2018: 187 including 33 in the now discontinued document storage business).

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 all colleagues can exchange ideas and offer suggestions for work and business improvement. This encourages our team members to build on their skills, through appropriate training and regular performance review. Regular training courses at our Head Office support these objectives and we talk below about the contribution Lok'nStore Academy makes to this (see the case study on the work of the Academy).

LOK'NSTORE ACADEMY

The Lok'nStore Academy continues to bring strategic and operational benefits to the business, aligning our training under one branded project, improving the sales skills of and providing personal development opportunities to our team members. During the year the Academy offered training courses on 14 different subjects resulting in 4005 hours of interactive classroom based training to our team members – the equivalent of over 28 hours per person. We are delighted to report that 14 team members completed National Vocational Qualifications (NVQs) and NCFE Qualifications during the financial year. The total number of NVQs attained has increased to 28 since the Academy opened.

Development of our teams through the Academy supports our strategic aim to fill future Centre Manager roles internally. Over 55% of our current Centre Managers are internal appointments and we expect to improve this percentage as the business grows, giving us committed and talented team members at the customer facing heart of our business. The Academy encompasses all in house training and quality audits such as our monthly mystery shop programme and standards audits and performance reviews.

100%

OF EMPLOYEES RECEIVE PERFORMANCE RELATED BONUSES

Employees continued

Remuneration of all Group colleagues is reviewed annually to ensure all of our employees are paid fairly and to ensure we can attract and retain the correct talent to support our rapid growth.

Our Company Intranet provides a central point of knowledge for all employees across the organisation. The system is regularly updated with news, events and files making it a first point of reference for company communication and documents.

Share Ownership Plans

We are proud to have share ownership plans in which all employees are eligible to participate. 75% of our employees are members of our Share Incentive Plan (SIP), a tax efficient equity scheme. This high level of participation is testament to the loyalty and commitment of our team members.

Our personnel are committed and motivated and help maintain the exemplary levels of friendly service that Lok'nStore provides to its customers. The Board would like to thank all colleagues for their commitment to our business and for their hard work and efforts over the year.

Employee Benefit Trust

The Employee Benefit Trust owns 623,212 shares (2018: 623,212), the costs of which are shown as a deduction from Shareholders' funds. Full details are provided in Note 27 – Own Shares.

Health and Safety

The Board recognises the prime importance of maintaining high standards of Health & Safety and healthy working conditions for our teams, customers, visitors, contractors and other people who may be affected by our business activities. Lok'nStore has a Property Risk Committee which meets every other month and considers issues relevant to Health and Safety and other risk issues within the Group under the overall supervision of Ray Davies, Finance Director, who carries Board responsibility for risk management.

The Health and Safety policy is reviewed by the Committee 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 colleagues within the Group.

ENVIRONMENTAL CASE STUDY:

As a socially responsible company Lok'nStore is committed to reducing the impact our operations have on the environment. To ensure this commitment is fulfilled for this year and in the future we are proud to confirm that electricity for the entire Lok'nStore Group now comes from 100% renewable energy.

Our electricity supplier obtains its energy either from renewable generators or from combined heat and power sources. The Group stipulates that all energy supplied must be from renewable generation. We believe that a large part of being a socially responsible company is ensuring our suppliers share our commitment to our green policies.

We continue to install photovoltaic (PV) solar panels on the roofs of our new buildings and are proud that we have managed to increase electricity generated by 53% whilst exporting clean green energy to the national grid.

Further information on our environmental management and performance can be found on page 35.

Environmental Performance

Lok'nStore remains committed to reducing waste and ensuring commitment to its green policies. We have been actively monitoring and measuring our environmental impacts since 2005. By monitoring environmental key performance indicators (eKPIs) including greenhouse gas emissions (GHG), water use and waste, and reviewing them against our stated Environmental Policy, we continue to achieve our stated aims; to manage waste effectively, control polluting emissions and to encourage suppliers to minimise their impact on the environment.

The UK government requires all quoted companies to report on their GHG emissions as part of their Annual Director's Report under the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013. As in previous years, Lok'nStore engaged Trucost to review its reporting of environmental impacts for the financial year ending 31 July 2019. A summary of their findings is included overleaf.

More detail can be found on our website:
www.loknstore.com

75% OF EMPLOYEES ARE MEMBERS OF SHARE INCENTIVE PLAN

75% OF EMPLOYEES ARE MEMBERS OF THE PENSION FUND

100% OF ELECTRICITY FROM RENEWABLE SOURCES

Environmental Management and Performance

Highlights for the year ending 31 July 2019

Impact	Result	Comment
Operational GHG Emissions (scope 1 & 2)	✓	In the year 2018–19 operational GHG emissions intensity has decreased by 19%. This demonstrates our ongoing commitment to decreasing GHG emissions, which have reduced by 66% since 2009.
Direct Operational GHG Emissions (scope 1)	✓	This year we are pleased to have achieved a decrease in direct GHG emissions despite an increased number of stores trading and geographical spread. Vehicle fuel usage has decreased and efforts continue to be made to reduce the use of heating from gas sources wherever possible.
Indirect Operational GHG Emissions (scope 2)	✓	We continue to emit no indirect operational GHG emissions due to all of our electricity coming from renewable feed stocks and onsite photovoltaic electricity generation. Where possible PV solar panels will be installed on new stores to increase electricity generated by our operations.
Renewable Energy Generation	✓	This year has seen a 53% increase in energy generated at our sites, with two additional facilities generating renewable energy.
Water Consumption	✗	Water usage has increased in the year 2018–19 as the total number of trading sites increased. Since 2005, both absolute water consumption and water use intensity have decreased by 23% and 66% respectively, with ongoing efforts to reduce this further.
Waste Generation	✗	In the year 2018–19 total waste generation increased as the total number of trading sites increased. However cardboard recycling waste increased by 6% and incinerated waste was considered to be at insignificant levels. Since 2009 absolute waste to landfill has decreased by 65%.
Waste Recycling	✓	The volume of recycled waste remained constant this year. We continue to promote recycling in our stores and offices to both our colleagues and our customers.

The Company's environmental reporting is consistent with 'Environmental Key Performance Indicators: Reporting Guidelines for UK Business 2006'

Lok'nStore's GHG reporting for 2018–19 aligns with government guidelines

Trucost found that Lok'nStore assessed and disclosed all material environmental impacts – GHG emissions, water consumption and waste generation for its own facilities

Operational GHG emissions decreased by 14%. Since 2009, GHG emissions have decreased by 66% and when normalised by annual revenue have decreased by 81%

GHG emissions from the consumption of purchased electricity remains at zero due to the Group's use of electricity derived from renewable sources

The Board is committed to considering the impact our operations have on the environment and minimising them wherever possible. We will continue to monitor and report our environmental impacts in line with government guidelines.

The Strategic Report as set out in pages 8 to 35 was approved by the Board of Directors and authorised for issue on 1 November 2019 and signed on its behalf by

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Governance

EXETER

The landmark Exeter store sits prominently on the economically vibrant Marsh Barton retail district to the south-east of the city centre.

With over 40% of new customers first becoming aware of Lok'nStore through our distinctive buildings, our striking designs are developed to maximise customer awareness.

The Lok'nStore management team identified and acquired the land, developing this store for a managed store client. Boasting 51,000 square feet of storage space once fully developed, Exeter is the eleventh store opened under a management contract.

51,000

SQUARE FEET OF MAXIMUM LETTABLE AREA

OPEN

NOW

Board of Directors and Advisers

EXECUTIVE DIRECTORS

Andrew Jacobs (60)

Chief Executive Officer

Experience
Andrew established Lok'nStore 25 years ago after eight years working in the Japanese equity market. Andrew is responsible for strategy, corporate finance and property. He has an MPhil in Economics from Cambridge University and a BSc in Economics from LSE.

Key Areas of Expertise
Strategy, corporate finance, economics and property.

Ray Davies (62)

Finance Director

Experience
Ray is a Fellow of the Institute of Chartered Accountants and the Institute of Chartered Secretaries & Administrators. Prior to joining Lok'nStore in 2004, Ray held several senior finance positions in listed companies in the construction, health and fitness sectors.

Key Areas of Expertise
Finance and accounting, corporate reporting, risk management, legal, tax and compliance.

Neil Newman-Shepherd (42)

Sales Director

Experience
Neil joined the Lok'nStore Group in October 2006 becoming Sales Director in November 2015. Prior to joining Lok'nStore, Neil gained retail experience at Wickes and Woolworths plc. Neil is responsible for sales, marketing and people.

Key Areas of Expertise
Sales, Marketing and Human Resource Management.

DIRECTORS AND ADVISERS

Directors

The Board of Directors is supported by an Assistant Company Secretary who assists the Chairman with the setting of meeting agendas and provides the information to the Board members prior to the meetings. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

S.G. Thomas	Non-Executive Chairman
A. Jacobs	Chief Executive Officer
R.A. Davies	Finance Director
N. Newman-Shepherd	Director
E.T.D. Luker	Senior Non-Executive Director
R.J. Holmes	Non-Executive Director
C.P. Peal	Non-Executive Director

The Board has over 100 years of self-storage experience.

■ Audit Committee ■ Remuneration Committee

Find out more about the Company's committees on pages 44 and 45

NON-EXECUTIVE DIRECTORS

Simon Thomas (59)

Non-Executive Chairman

Experience
Simon joined Lok'nStore in 1997 following successful careers in the publishing and finance sectors. He worked at Reed International, Swiss Bank Corporation, Nomura International and co-founded the emerging markets investment trust business at LCF Edmond de Rothschild. Simon is responsible for the composition and performance of the Board.

Key Areas of Expertise
Corporate Finance.

Edward Luker (70)■■

Senior Non-Executive Director

Experience
Edward is a Fellow of the Royal Institution of Chartered Surveyors. 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. Edward joined Lok'nStore in 2007.

Key Areas of Expertise
Commercial Property.

Charles Peal (64)■

Non-Executive Director

Experience
Charles joined Lok'nStore in 2007. Charles started his career in 1977 at 3i Group, the leading UK quoted Venture Capital Company. He was Chief Executive of Legal and General Ventures from 1988 to 2000 and has served on several Boards since then.

Key Areas of Expertise
Capital Markets and Fund Management.

Richard Holmes (59)■

Non-Executive Director

Experience
Richard joined Lok'nStore in 2000 having held senior marketing and commercial roles in Unilever, Boots (as Marketing Director and Commercial Director) and latterly Specsavers (as Group Marketing Director).

Key Areas of Expertise
Marketing including digital marketing, and customer experience.

In addition the Board is advised by:

Secretary and Registered Office: Dentons Secretaries Limited, One Fleet Place, London, EC4M 7WS

Nominated Adviser and Broker: finnCap Limited, 60 New Broad Street, London, EC2M 1JJ

Auditor: RSM UK Audit LLP, 25 Farringdon Street, London, EC4A 4AB

Registrars: Link Asset Services (Formerly Capita Registrars), Link Group, 6th Floor, 65 Gresham Street, London, EC2V 7NQ

Solicitors: Dentons UKMEA LLP (formerly Maclay Murray Spens LLP), One Fleet Place, London, EC4M 7WS

Solicitors: Goodman Derrick LLP, 10 St Bride Street, London, EC4A 4AD

Solicitors: Glovers LLP, 6 York Street, London, W1U 6QD

To find out more visit:
www.loknstore.com/investors/the-board

Corporate Governance

The Board of Lok'nStore Group plc has always sought to operate the highest level of governance standards appropriate to the size and nature of the Company. Although the Company had not previously been obliged to comply with a recognised code, its annual reporting has previously detailed how the Company has followed the UK Corporate Governance Code and where it has departed from the code explained why.

Corporate Governance Statement

In March 2018, the London Stock Exchange published AIM Notice 50 which requires AIM companies to state which of the recognised corporate governance codes the Board of Directors has decided to apply, how the Company complies with that code and where it departs from the code an explanation of the reasons for doing so. Having reviewed the two recognised codes, the Board decided to apply the Quoted Companies Alliance's Corporate Governance Code ('QCA Code').

As Chairman it is my responsibility to ensure the Company complies with the QCA Code and where the Company deviates to explain why the Directors believe this to be in the best interests of the Company. In this section, we hope to demonstrate our Company's good corporate governance structure and where our practices differ from the expectations set by the QCA Code, why they do so. You can find more information including our reporting directly referenced to the 10 principles of the QCA Code on the corporate governance page in the investor section on our website. These are also summarised below and referenced to the relevant content within the Annual Report.

	QCA Code Principle	Reporting Location	Compliant With Code
1	Establish a strategy and business model which promote long-term value for Shareholders	Our Business Model is set out on page 10 and our strategic objectives and achievements in the year are set out on page 12.	✓
2	Seek to understand and meet Shareholder needs and expectations	Under Shareholder Relations on page 44 we discuss how we seek to understand and meet shareholder needs and expectations. Andrew Jacobs, CEO, is responsible for Shareholder liaison.	✓
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	How we work with and take into account wider stakeholder interests is detailed in our Corporate Sustainability Report on pages 33 to 35.	✓
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	Our approach to risk management is detailed on page 30 and our principal risks are outlined on page 31.	✓
5	Maintain the Board as a well-functioning, balanced team led by the Chair	The Board structure is reported on pages 38 to 45. Our committees are detailed in this section of the Annual Report but can also be found on our website: https://www.loknstore.co.uk/investors/	✓
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Our Directors' biographies can be found on pages 38 and 39 and further information on the balance of skills and capabilities within our Board can be found in the commentary on Board Evaluation on page 43.	✓
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	We set out this year's information in the Corporate Governance section on page 43.	✓

	QCA Code Principle	Reporting Location	Compliant With Code
8	Promote a corporate culture that is based on ethical values and behaviours	Please see our Corporate Sustainability Report on pages 33 to 35.	✓
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Please see the Corporate Governance section from page 40.	✓
10	Communicate how the Company is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders	Please see the Corporate Governance section, specifically page 44. Results of voting at our AGMs can be found on the announcements page of our website: https://www.loknstore.co.uk/investors/announcements/	✓

Our Governance Structure

THE BOARD

Remuneration Committee
Meets Once a Year
Chaired by Edward Luker
See page 45 for more information

Audit Committee
Meets Twice a Year
Chaired by Charles Peal
See page 45 for more information

EXECUTIVE BOARD COMMITTEE
Meets Monthly
Considers:
Strategy, Management accounts, Store operations, Customer Issues & Human Resources

Capex Committee
Meets Monthly
Considers:
Proposed capital expenditure, actual spend against budgets

Property Committee
Meets Weekly
Considers:
Sites under development, new acquisitions

Property Risk Committee
Meets Quarterly
Considers:
Risks associated with properties including HS&E

OPERATIONAL MANAGEMENT
Day to Day Business Delivery

Internal Control

The Board is responsible for ensuring that the Group has established and operates 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 employee handbook, which is issued to all colleagues. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

Corporate Governance
continued

The Board

Three Executive Directors and Four Non-Executive Directors

Meets:	Considers:	Receives:
Five times a year with teleconferences when required	• Financial strategy • Company performance • Major investments • Capital resources • Risk Management • Reporting to Shareholders	• Detailed management accounts against budgets • A current trading appraisal • Minutes of all subcommittees • The Risk Register • The Conflicts Register

The Directors

The Board consists of three Executive Directors and four Non-Executive Directors. The expertise of the Directors covers Company Law, Corporate Finance, Economics, Finance and Accounting, Corporate Reporting, Risk Management. Tax and Compliance, Marketing, Operations, Property Law and Strategy.

Activities

The Non-Executive Directors provide considerable support to the Chief Executive Officer and while much of this is via informal meetings, telephone calls and email correspondence, the Non-Executive Directors also lend their expertise and experience to other members of the management team.

Conflicts of Interest

The Directors have a responsibility to act in the best interests of the Group and its Shareholders and in keeping with this responsibility it is imperative that Directors are aware of and properly manage potential conflicts of interest.

The table below shows the Directorships that the Group Directors hold in other companies both inside and outside the Group:

Andrew Jacobs
Andrew Jacobs (UK) Limited
Lok'nStore Limited*
The Box Room (Self Storage) Limited*

Ray Davies
Ash Road SS Limited
Chichester Storage Limited
Davies Elise Consulting Limited
Lok'nStore Limited*
Lok'nStore Trustee Limited*
ParknCruise Limited*
Semco Engineering Limited*
Semco Machine Tools Limited*
Southern Engineering and Machinery Co. Limited*
The Box Room (Self Storage) Limited*

Neil Newman-Shepherd
Lok'nStore Limited*

Simon Thomas
Lok'nStore Limited*
Simon Thomas (UK) Limited

Edward Luker
Edward Luker Consulting Limited
St George's School Ascot Trust Limited

Richard Holmes
Lok'nStore Limited*
Lok'nStore Trustee Limited*
First Contact Healthcare**

* Lok'nStore Group Companies.

** Guernsey registered company.

Conflicts of interest arise where an individual's personal interests or those interests related to legitimate outside roles may conflict with the interests of the Group. This could, for example, inhibit open discussions or lead to a perception that the individual is acting outside of the Group's interests.

It is recognised that conflicts of interest will inevitably occur from time to time and that Directors legitimately undertake roles outside of the Group. The Board therefore believes it is important to be transparent in terms of such interests and to ensure they are properly recorded and, where necessary, Directors will withdraw from decision-making if there is a danger of perceived conflict.

A register of interests is maintained by the Assistant Company Secretary and is circulated to the Directors in advance of each Board meeting. Conflicts of interest are considered and authorised by the Board as they arise.

We report in Note 30 related party transactions. Additionally, within Note 30, in the interests of transparency we include items which, while not strictly falling within the definition of a related party transaction, are still considered matters of interest.

Board Evaluation and Composition

Board Attendance	Board	Audit Committee	Remuneration Committee	Annual General Meeting	% Attendance
Total Number of Meetings in 2018/2019	5 (3 Telecon)	1	2	1	
Executive Directors					
Andrew Jacobs	5 (3)	n/a	n/a	1	100%
Ray Davies	5 (3)	n/a	n/a	1	100%
Neil Newman-Shepherd	5 (3)	n/a	n/a	1	100%
Non-Executive Directors					
Simon Thomas	5 (3)	n/a	n/a	1	100%
Edward Luker	5 (3)	1	2	1	100%
Charles Peal	4 (3)	1	n/a	1	90%
Richard Holmes	5 (3)	n/a	1	1	91%

The 2018 QCA Code expects companies to, 'evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.' Our Executive Directors are evaluated on a quarterly basis via the Company's senior management review system in which objectives are set and performance against these objectives is subsequently measured. Remuneration is linked to these objectives and may include relevant performance targets such as number of new properties acquired or turnover growth. Our Non-Executives were evaluated informally within this year's review of our Board composition and we report on this below.

We have previously reported (against The UK Corporate Governance Code's requirement that a smaller company should have at least two Non-Executive Directors that are deemed independent) that all of our Non-Executive Directors have served for longer than nine years and were therefore no longer deemed independent. Our new code, the Quoted Companies Alliance Code, takes a more pragmatic approach stating that, 'length of tenure does not automatically affect independence' and that the Board should, 'make a decision regarding such Director's independence.'

Therefore as part of our review of the Board composition this year we looked at the ability of our Non-Executive Directors to be objective, the experience each of our Non-Executive Directors brings to the business and the contribution they have made in the year. We established that the broad range of skills, expertise and attitude amongst the Executive and Non-Executive Directors includes all the matters that the Company deals with – strategy, property, finance, human resources, marketing, and organisation. Further the long experience of Board Members continues to be considered an asset and all express challenges freely and robustly.

We also met with potential Non-Executive Directors to explore what expertise they might bring to the Board and discussed the balance between new experiences and increasing costs. After careful consideration we concluded that the current composition of the Board remains in the best interest of Shareholders and the Company as a whole.

Non-Executive Directors who have served over nine years must offer themselves for re-election at every Annual General Meeting and accordingly Simon Thomas, Edward Luker, Charles Peal and Richard Holmes offer themselves for re-election at every AGM.

Corporate Governance
continued

Directors' Remuneration

The Remuneration Committee consists of Edward Luker (Chairman of the Committee) and Richard Holmes. 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.

Performance related bonuses are calculated in accordance with strict and measurable performance criteria. There are no specific performance conditions relating to the historic grant of share options beyond the share price performance. The Remuneration Committee has introduced appropriate performance criteria to apply for the grant of future share options as part of long term performance awards in order to meet the objectives of the business and accord with accepted corporate governance. The details of each Director's remuneration are set out in Note 6 in the financial statements.

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

Shareholder Relations

We aim to provide balanced, clear and transparent communications which allow our Shareholders to understand our performance, strategy and prospects. Further aiding transparency is the fact that the Group has a straight forward capital structure; one class of shares and one bank facility.

The Directors also meet and discuss the performance of the Group with Shareholders throughout the year with specific schedules to visit institutional investors, analysts and the media being held after the announcement of the half year and full year results. At the AGM the Board give a presentation of events and progress during the year. Attendee Shareholders are encouraged to mix and engage with the Directors after the formal business of the AGM has concluded.

Regular Regulatory News Service announcements (RNS) are made via the London Stock Exchange throughout the year keeping all Shareholders informed about acquisitions, trading conditions, Director dealings etc. Queries raised by a Shareholder, either verbally or in writing, are promptly answered by whoever is best placed on the Board to do so.

Accounting Dates and Reporting Calendar 2019

January	H1 Period- End
February	Pre-close Trading Statement (H1)
March	
April	Interim Results announced
May	
June	
July	Financial Year-End
August	Pre-close Trading Statement
September	
October	
November	Preliminary Statement
December	AGM

Accountability and Audit

The Board believes that the audited Annual Report and Accounts play an important part in presenting all Shareholders with an assessment of the Group's position and prospects. The Strategic Review contains a detailed consideration of the Group's position and prospects.

Board Committees

The following section introduces the Group's committees, members and the terms of reference.

Nomination Committee

A Nomination Committee would oversee the appointment of a new Director. Due to the relatively small size of the Company, the Board do not believe that a Nomination Committee is necessary. 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.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which require them to offer themselves for re-election at least once every three years.

Remuneration Committee

The Remuneration Committee consists of Edward Luker (Chairman of the Committee) and Richard Holmes. The Committee meets once a year and considers, within existing terms of reference, the remuneration policy and makes recommendations to the Board for each Executive Director. Further the Committee considers proposals from the Chief Executive Officer on the remuneration of the operational management team especially in relation to bonus share option awards under the long term performance related pay schemes.

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 long term performance related pay including 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 the Remuneration Report on page 48 and more details are given in Note 6 in the financial statements.

Audit Committee

The Company has an Audit Committee, to whom the external Auditor, RSM UK Audit LLP, reports. The Committee consists of Charles Peal (Chairman of the Committee) and Edward Luker. Charles Peal is the Committee's Nominated Financial Expert (for details of Charles' experience please see his biography on page 39).

The Committee 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 prior to the announcement of the Group's financial results to consider the Auditors' Findings Report and consider any corresponding recommendations. It also convenes to discuss and review the findings of the external JLL Valuation Report prior to the Groups year-end results. The Committee would convene at other times should it be necessary.

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 team members 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 will continue to review the Company's corporate governance and annual reporting against the QCA Code and to implement appropriate systems in order to support the Directors in executing their responsibilities to all of the Company's Stakeholders.

On behalf of the Board.

Simon G Thomas
Chairman

1 November 2019

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 2019.

Principal Activity

The principal activity of the Group during the year was that of providing self-storage and related services.

Review of the Business and Future Developments

A detailed account of the Group's progress during the year and its future prospects are set out in the Chairman's Review on page 2 and the Strategic Report on pages 8 to 35.

The key performance indicators are set out in the Highlights on page 1 and discussed in more detail in the Financial Review on page 22 and the Chief Executive's Review on page 13. Commentary on financial risk managements is included on page 30 and disclosures on financial instruments are provided in Note 17.

Going Concern

A review of the Group's business activities, together with the matters likely to influence its future development, performance and its position in the wider market are set out in the Strategic Report. The financial position of the Group, its cash flows and borrowing facilities are shown in the Statement of Financial Position, Cash Flow Statement and corresponding notes and policies contained within the financial statements.

Further information concerning the Group's objectives, policies, its financial risk management objectives as well as details of financial instruments and credit and liquidity risk are also found in the Strategic Report and in the Notes to the Financial Statements. See Note 17.

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 £13.7 million, (2018: £5.0 million) undrawn committed facilities at 31 July 2019 of £32.0 million (2018: £12.7 million) and cash generated from operations £8.1 million (2018: £7.0 million).

In April 2019, the Group increased its bank facility by £25 million to £75 million, with a further £25 million accordion option taking the facility to £100 million. The increased facility will provide funding for new landmark site acquisitions and working capital to support the Group's ambitious growth plans.

The facility is a combined agreement with Lloyds Bank and The Royal Bank of Scotland plc and runs until 2024 with an option for a further two one year extensions and is closely aligned to the terms of the Group's previous facility. The interest rate is set at the London Inter-Bank Offer Rate (LIBOR) plus a 1.50%–1.75% margin based on a loan to value covenant test.

The Group is fully compliant with all bank covenants and undertakings and is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

Dividend

In respect of the current year, the Directors propose that a final dividend of 8.33 pence per share (2018: 7.67 pence) will be paid on 10 January 2020 to Shareholders on the register on 29 November 2019. The corresponding ex-dividend date is 28 November 2019. The total estimated dividend to be paid is £2.4 million based on the number of shares in issue on 17 October 2019 as adjusted for shares held in the Employee Benefits Trust. 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

Reportable events after the reporting date are set out in Note 31 in the financial statements.

Directors

The following Directors held office during the year and subsequently:

SG Thomas	ETD Luker
A Jacobs	RJ Holmes
RA Davies	CP Peal
N Newman-Shepherd	

Details of the interests of the Directors in the shares of the Company are set out on page 49 and details of their remuneration are disclosed in Note 6 of the financial statements.

Biographical details of the Directors are set out on page 38 and 39.

Reappointment of Directors

Richard Holmes, Edward Luker and Charles Peal who have over 15, 12 and 12 years tenure respectively as Non-Executives are required under the Companies Act 2006 to offer themselves for re-election at every AGM and accordingly offer themselves for re-election at the next AGM. Simon Thomas by virtue of his accumulated tenure both as an Executive and a Non-Executive Director also offers himself for re-election at the next AGM.

Directors' and Officers' Liability Insurance

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

Substantial Shareholdings

The Directors have been notified or are aware that the following are interested in 3% or more of the issued Ordinary Share capital of the Company as at 17 October 2019:

	Current Rank	% at 17 Oct 2019	Number of Shares	Total Shares in Issue	% at 17 Oct 2018	Number of Shares	Total Shares in Issue
Andrew Jacobs	1	17.59	5,204,600		17.64	5,204,600	
Miton Asset Management	2	8.28	2,449,455		8.50	2,509,455	
Canaccord Genuity Wealth Management	3	5.54	1,640,000		5.56	1,640,000	
Simon Thomas	4	5.17	1,530,000		6.03	1,780,000	
BlackRock	5	4.66	1,379,608		–	–	
Cavendish Asset Management	6	3.64	1,077,115		5.07	1,496,500	
Downing	7	3.37	996,650		4.15	1,225,250	
Hargreaves Lansdown	8	3.25	960,480		3.60	1,061,001	
				29,586,555			29,505,919[1]

1 Represents total shares in issue.

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 2019 are shown in Note 10(b) to the Financial Statements. Further commentary on the property portfolio is contained in the Property Review on page 19 and in the Financial Review on page 22.

Share Buy-back Authority

Authority will be sought at the Company's AGM on 12 December 2019 from Shareholders to approve a share buyback 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 12 December 2019 at 5.30pm at the offices of Goodman Derrick LLP 10, St Bride Street, London EC4A 4AD.

Auditor

A resolution to reappoint RSM UK Audit LLP 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.

Ray Davies
Director
1 November 2019

Remuneration Report

Although the Group is not required to set out a formal Remuneration Report we set out below the key components of the Directors' remuneration in accordance with AIM Rule 19.

Base Salary: Provides competitive fixed remuneration to retain key employees and reflect their experience and expertise in the context of the role and set by reference to the market.

Annual and Monthly Bonuses: Aligns reward to key Group strategic objectives and drives short-term performance.

Long Term Incentive Plan: Following strict performance criteria aligns Executive Director interests with those of Shareholders and rewards achievement of the long term plan. (See below and Note 23(b) of the financial statements).

All Employee Scheme: The Group operates an HMRC approved Share Incentive Plan (SIP). This encourages share ownership by all employees and allows them to share in the long term success of the Group. R Davies and N Newman, Executive Directors, also participate in this scheme.

Other Benefits: The benefits reported in the table below all relate to medical insurance premiums paid on behalf of the Directors. An additional benefit is Death in Service Insurance typically at four times base salary (subject to a cap of £0.5 million).

Service Contracts: Executive Directors' service contracts operate on a rolling basis without a specific end-date providing for one year's notice on the part of the Company and six months' notice on the part of the employee. Non-Executives do not have service contracts with the Company but rather their appointments are governed by letters of appointment.

Directors' Remuneration

2019	Emoluments £	Bonuses £	Pension £	Benefits £	Sub total £	Gains on Share Options £	Total £
Executive:							
A Jacobs	220,816	38,250	–	5,435	264,501	–	264,501
RA Davies	160,968	22,641	4,829	4,612	193,050	–	193,050
N Newman-Shepherd	78,931	64,034	2,631	2,364	147,960	–	147,960
Non-Executive:							
SG Thomas	30,900	–	–	4,804	35,704	40,580	76,284
RJ Holmes	22,297	–	–	–	22,297	–	22,297
ETD Luker	27,873	–	–	–	27,873	–	27,873
CP Peal	22,297	–	–	–	22,297	–	22,297
	564,082	124,925	7,460	17,215	713,682	40,580	754,262

2018	Emoluments £	Bonuses £	Pension £	Benefits £	Sub total £	Gains on Share Options £	Total £
Executive:							
A Jacobs	216,487	26,000	–	4,272	246,759	–	246,759
RA Davies	131,280	19,222	31,190	4,090	185,782	20,415	206,197
N Newman-Shepherd	75,172	42,477	2,255	1,933	121,837	71,317	193,154
Non-Executive:							
SG Thomas	30,000	–	–	4,009	34,009	–	34,009
RJ Holmes	21,648	–	–	–	21,648	–	21,648
ETD Luker	27,061	–	–	–	27,061	52,275	79,336
CP Peal	21,648	–	–	–	21,648	–	21,648
	523,296	87,699	33,445	14,304	658,744	144,007	802,751

Details of the Directors remuneration are shown above. Key management personnel are defined as the Directors of the Group and the additional participants in the Long Term Partnership Performance Plan (LTPPP).

The following table shows a summary of the options held by Directors under all schemes. Refer to Notes 21 to 24 for details.

2019	Total at 31 July 2018	Options Granted	Options Exercised/ Lapsed	Unapproved Scheme	Approved CSOP Share Options	Total at 31 July 2019
Executive Directors						
A Jacobs – Unapproved	206,087	–	–	206,087	–	206,087
A Jacobs – LTPPP	–	80,000	–	80,000	–	80,000
A Jacobs total	206,087	80,000	–	286,087	–	286,087
RA Davies – Unapproved	246,977	–	–	246,977	–	246,977
RA Davies – CSOP	7,742	–	–	–	7,742	7,742
RA Davies – LTPPP	–	80,000	–	80,000	–	80,000
RA Davies total	254,719	80,000	–	326,977	7,742	334,719
N Newman-Shepherd – Unapproved	172,421	–	–	172,421	–	172,421
N Newman-Shepherd – CSOP	10,661	–	–	–	10,661	10,661
N Newman-Shepherd – LTPPP	–	120,000	–	120,000	–	120,000
N Newman-Shepherd total	183,082	120,000	–	292,421	10,661	303,082
Non-Executive Directors						
SG Thomas – Unapproved	25,217	–	(20,000)	5,217	–	5,217
All Directors total	669,105	280,000	(20,000)	910,702	18,403	929,105

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 two and a half or three years.

Unapproved Share Options – Long Term Partnership Performance Plan (LTPPP)

On 2 July 2018 the Group adopted the Company Long Term Partnership Performance Plan (LTPPP). The Plan is a discretionary benefit offered by the Company for the benefit of selected key employees including Executive Directors. Its main purpose is to increase the interest of the employees in the Groups long term business goals and performance through share ownership. It contains specific performance criteria. Further details are set out in Note 23(b) of the financial statements.

On behalf of the Board and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Statement of Directors' Responsibilities

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

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 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 responsible for the maintenance and integrity of the corporate and financial information on the Lok'nStore Group plc websites.

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

Independent Auditor's Report

to the Members of Lok'nStore Group plc

Opinion

We have audited the financial statements of Lok'nStore Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 July 2019 which comprises the Consolidated Statement of Comprehensive income, the Consolidated and Company Statements of Change in Equity, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant Accounting Policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2019 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 company 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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group Key Audit Matters

Property Valuation

Risk

Fair values are calculated using actual and forecast inputs such as: occupancy, capitalisation rates, maximum lettable area, operating expenses and net rent per square foot by property as at 31 July 2019. In addition, the external valuer applies professional judgement concerning market conditions and factors impacting individual properties.

We consider property valuation to be a significant and key risk of material misstatement as the valuation process is subjective and inherently judgemental in nature.

Refer to Note 10(b) to the financial statements for the disclosures relating to the property valuations.

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

Approach

Our approach to auditing the valuations involved the following:

- We tested the integrity of the information provided to the external valuer by management by agreeing key inputs such as actual occupancy and profitability to underlying records and source evidence;
- We evaluated the competence, capabilities and objectivity of the external valuation expert;
- We assessed the scope of the work which the external valuer was requested to perform by management and the valuation methodology applied, determining whether changes to the method were appropriate;
- We discussed the valuations with the external valuer and challenged them on the key assumptions applied and focussed on properties we identified as having significant or unusual valuation movements (compared to underlying performance or previous periods);
- We benchmarked the resulting valuations and valuation inputs to comparable businesses in the sector;
- We challenged management to justify the assumptions used in the model (particularly in respect of trading forecasts and comparison of those forecasts to actual results); and
- We considered the key assumptions relating to the rollover relief and to the calculations of deferred tax arising on the property valuations.

Company Key Audit Matters

There were no key audit matters relating to the parent company.

Our Application of Materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the Group financial statements as a whole was calculated at £462,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £230,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £23,100 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An Overview of the Scope of our Audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. The scope of our audit covered 100% of both consolidated profit before tax and consolidated net assets. Subsidiaries that were subject to audit exemption were audited to a materiality of £460,000 as part of the audit of the consolidated financial statements.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which we are Required to Report by Exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement (set out on page 50), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Use of our Report

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.

Graham Ricketts
(Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP,
Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

1 November 2019

Financial Statements

DOVER

Lok'nStore Dover opened in December 2018 and trading has been excellent.

This prominent store has 36,000 square feet of storage space over four floors. The experienced Lok'nStore management team located and acquired a 0.75-acre site, going on to develop the store for an existing managed store client.

The impressive glass frontage sits proudly on a main arterial road in the Whitfield retail area to the North of the town, adjacent to Lidl, B&Q and Dover Council's new flagship leisure centre.

36,000

SQUARE FEET OF MAXIMUM LETTABLE AREA

OPEN

NOW

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2019

	Notes	Group Year Ended 31 July 2019 £'000	Group Year Ended 31 July 2018 £'000
Revenue	1(a)	16,950	15,372
Total property, staff, distribution and general costs	2(a)	(9,557)	(8,739)
Adjusted EBITDA[1]		7,393	6,633
Amortisation of intangible assets	10(a)	(83)	(165)
Depreciation	10(b)	(2,207)	(1,880)
Equity settled share based payments	21	(46)	(33)
		(2,336)	(2,078)
Carried interest – fees receivable	2(c)	–	361
Receivables from warranty claims	2(c)	–	230
Profit on sale of land at store	2(c)	295	–
Costs of sale & manage–back of Crayford store	2(c)	(54)	–
Deferred financing on bank loan written off	2(c)	(133)	–
		108	591
		(2,228)	(1,487)
Operating profit[1]		5,165	5,146
Finance income	3	31	80
Finance cost	4	(605)	(463)
Profit before taxation	5	4,591	4,763
Income tax expense	7	(1,211)	(1,459)
Profit for the year from Continuing Operations		3,380	3,304
Profit for the year from Discontinued Operations	12	2,182	453
Profit for the year		5,562	3,757
Profit attributable to:			
Owners of the parent		5,562	3,757
Other Comprehensive Income			
Items that will not be reclassified to profit and loss;			
Increase in property valuation		13,765	15,723
Deferred tax relating to change in property valuation		(2,327)	(2,698)
Other comprehensive income		11,438	13,025
Total comprehensive income for the year		17,000	16,782
Attributable to owners of the parent		17,000	16,782
Earnings per share attributable to owners of the parent			
Basic	9		
Continuing Operations		11.69p	11.48p
Discontinued Operations		7.55p	1.57p
Total basic earnings per share		19.23p	13.05p
Diluted	9		
Continuing Operations		11.50p	11.28p
Discontinued Operations		7.42p	1.55p
Total diluted earnings per share		18.92p	12.83p

1 Adjusted 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 2019

	Attributable to Owners of the Parent					
	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
31 July 2017	293	10,028	8,469	52,165	18,164	89,119
Profit for the year	–	–	–	–	3,757	3,757
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	13,025	–	13,025
Total comprehensive income for the year	–	–	–	13,025	3,757	16,782
Transactions with owners:						
Dividend paid	–	–	–	–	(2,977)	(2,977)
Share based payments	–	–	33	–	–	33
Transfers in relation to share based payments	–	–	(109)	–	109	–
Deferred tax relating to share options	–	–	(30)	–	–	(30)
Exercise of share options	2	322	–	–	–	324
Total transactions with owners	2	322	(106)	–	(2,868)	(2,650)
Transfer additional depreciation on revaluation net of deferred tax	–	–	–	(291)	291	–
31 July 2018	295	10,350	8,363	64,899	19,344	103,251
Profit for the year	–	–	–	–	5,562	5,562
Other comprehensive income:						
Increase in property valuation net of deferred tax	–	–	–	11,438	–	11,438
Total comprehensive income for the year	–	–	–	11,438	5,562	17,000
Transactions with owners:						
Dividend paid	–	–	–	–	(3,279)	(3,279)
Share based payments	–	–	46	–	–	46
Transfers in relation to share based payments	–	–	(51)	–	51	–
Deferred tax relating to share options	–	–	(1)	–	–	(1)
Exercise of share options	1	140	–	–	–	141
Total transactions with owners	1	140	(6)	–	(3,228)	(3,093)
Reserve transfer on disposal of assets	–	–	–	(4,927)	4,927	–
Transfer additional depreciation on revaluation net of deferred tax	–	–	–	(304)	304	–
31 July 2019	296	10,490	8,357	71,106	26,909	117,158

Company Statement of Changes in Equity

For the year ended 31 July 2019

	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Other Reserves £'000	Total £'000
31 July 2017	293	10,028	3,166	1,919	15,406
Profit for the year	–	–	3,572	–	3,572
Share based payments	–	–	–	33	33
Transfer in relation to share based payments	–	–	109	(109)	–
Exercise of share options	2	322	–	–	324
Dividends paid	–	–	(2,977)	–	(2,977)
31 July 2018	295	10,350	3,870	1,843	16,358
Profit for the year	–	–	3,774	–	3,774
Equity settled share based payments	–	–	–	46	46
Transfer in relation to share based payments	–	–	51	(51)	–
Exercise of share options	1	140	–	–	141
Dividends paid	–	–	(3,279)	–	(3,279)
31 July 2019	296	10,490	4,416	1,838	17,040

Consolidated and Company Statements of Financial Position

31 July 2019

Company Registration No. 04007169

	Notes	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Assets					
Non-current assets					
Intangible assets	10(a)	–	3,263	–	–
Property, plant and equipment	10(b)	168,938	152,580	–	–
Investments	13	–	–	2,464	2,418
Financial assets	2(c)[1]	361	361	–	–
Director review		169,299	156,204	2,464	2,418
Current assets					
Inventories	14	298	257	–	–
Trade and other receivables	15	3,707	4,476	14,576	13,940
Cash and cash equivalents	17	13,662	4,990	–	–
		17,667	9,723	14,576	13,940
Total assets		186,966	165,927	17,040	16,358
Liabilities					
Current liabilities					
Trade and other payables	16	(4,753)	(5,159)	–	–
Current tax liabilities		(339)	(612)	–	–
		(5,092)	(5,771)	–	–
Non-current liabilities					
Borrowings	18	(42,331)	(37,170)	–	–
Deferred tax	19	(22,385)	(19,735)	–	–
		(64,716)	(56,905)	–	–
Total liabilities		(69,808)	(62,676)	–	–
Net assets		117,158	103,251	17,040	16,358
Equity attributable to owners of the parent					
Called up share capital	20	296	295	296	295
Share premium		10,490	10,350	10,490	10,350
Other reserves	25(a)	8,357	8,363	1,838	1,843
Retained earnings	26	26,909	19,344	4,416	3,870
Revaluation reserve		71,106	64,899	–	–
Total equity attributable to owners of the parent		117,158	103,251	17,040	16,358

As permitted by section 408 Companies Act 2006, the parent company's Statement of Comprehensive Income has not been included in these financial statements. The profit and comprehensive income for the year ended 31 July 2019 was £3.8 million (2018: £3.6 million).

Approved by the Board of Directors and authorised for issue on 1 November 2019 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 2019

	Notes	Group 2019 £'000	Group 2018 £'000
Operating activities			
Cash generated from operations	28(a)	8,067	6,982
Income tax paid		(955)	(775)
Net cash generated from operations		7,112	6,207
Investing activities			
Proceeds of disposal of discontinued operation – net of disposal costs and cash included in sale		6,849	–
Proceeds of sale of land (net of disposal costs)		796	–
Proceeds of sale of store		7,418	–
Acquisition of subsidiary (net of cash acquired)		(1,069)	–
Development loan capital repaid / invested		–	3,463
Purchase of property, plant and equipment		(14,029)	(21,935)
Proceeds from warranty claims		–	342
Interest received		31	80
Net cash outflow from investing activities		(4)	(18,050)
Financing activities			
Proceeds from drawdown of new bank facility		42,971	–
Repayment of bank borrowings on retiring bank facility		(42,395)	–
Proceeds of bank borrowings utilised for store development		5,653	8,519
Finance costs paid on bank refinancing		(593)	–
Finance costs paid		(934)	(419)
Equity dividends paid		(3,279)	(2,977)
Proceeds from issue of ordinary shares (net)		141	324
Net cash inflow from financing activities		1,564	5,447
Net increase / (decrease) in cash and cash equivalents in the year		8,672	(6,396)
Cash and cash equivalents at beginning of the year		4,990	11,386
Cash and cash equivalents at end of the year		13,662	4,990

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 Group plc is an AIM listed company incorporated and domiciled in England and Wales. The address of the registered office is One Fleet Place, London, EC4M 7WS, UK. Copies of this Annual Report and Accounts may be obtained from the Company's head office at 112 Hawley Lane, Farnborough, Hants, GU14 8JE or the investor section of the Company's website at http://www.loknstore.co.uk. The principal activities of the Group and the nature of its operations are described in the Strategic Report.

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 2018.

The financial statements have been prepared on the historic cost basis except that certain trading properties and non-current financial assets are stated at fair value.

Standards Adopted in the Year

IFRS 9 (Financial instruments), IFRS 15 (Revenue from contracts with customers) and IFRS 2 (Amendments, classification and measurement of share based payment transactions) were all adopted in the year.

Adoption of IFRS 9 covers the classification, measurement and derecognition of financial assets and liabilities. There has been no impact on the Group's accounting for financial liabilities although the standard has increased the level of reporting in Note 17 (Financial instruments) particularly around a more detailed explanation of credit risks to the business and a reiteration of the robust credit model that underpins the business.

IFRS 15 has its own section below but in summary the Group has concluded revenue recognition will be unchanged under IFRS 15 although there is additional reporting of separate revenue streams in Note 1 which are aligned with the Group's accounting policies on revenue recognition.

There has been no material impact from the amendments to IFRS 2.

Standards in Issue but not yet Effective

At the date of approval of these financial statements, the following principal standards and interpretations were in issue but not yet effective:

Standards, Interpretations and Amendments *Endorsed*		**Effective Date: Periods Commencing on or After**
IFRS 16	Leases	1 Jan 2019

Standards, Interpretations and Amendments *Not Yet Endorsed*		**Effective Date: Periods Commencing on or After**
IFRIC 23	Uncertainty over income tax treatments	1 Jan 2019

Subject to the adoption in due course of IFRS 16, the Directors do not anticipate that the adoption of these Standards will have a significant impact on the financial statements of the Group. With regard to IFRS 16, although the Group will not be adopting the Standard until its year ended 31 July 2020 the Directors consider that this will have a significant impact on the financial statements of the Group at that time and have provided an initial overview of the impact on the 2020 financial statements with supporting calculations and which is set out on page 28.

There were no other Standards or Interpretations issued 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.

Accounting Policies continued

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 July each year. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power to vary those returns.

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 a non-current 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 or CGU for which the estimate of future cash flows have not been adjusted.

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 £13.7 million (2018: £5.0 million), undrawn committed bank facilities at 31 July 2019 of £32.0 million (2018: £12.7 million), and cash generated from operations in the year ended 31 July 2019 of £8.1 million (2018: £7.0 million).

In April 2019, the Group increased its bank facility by £25 million to £75 million, with a further £25 million accordion option taking the facility to £100 million. The increased facility will provide funding for new landmark site acquisitions and working capital to support the Group's ambitious growth plans.

The facility is a combined agreement with Lloyds Bank and The Royal Bank of Scotland plc and runs until April 2024 with an option for a further two one year extensions and is closely aligned to the terms of the Group's previous facility. The interest rate is set at the London Inter-Bank Offer Rate (LIBOR) plus a 1.50%–1.75% margin based on a loan to value covenant test.

IFRS 15 – Revenue Recognition

IFRS 15 replaces IAS 18 and is the applicable standard that sets the rules for the recognition of revenue. The standard is effective for financial years commencing on or after 1 January 2018 and therefore applies for the first time for the current financial year 31 July 2019. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The Group's assessment is that IFRS 15 applies to all its streams of revenue. There has not been a material change in the amounts and timing of revenue recognised following the adoption of the standard. Each customer agreement is terminable on seven days' notice by the customer at any time or in specific circumstances by the Group and each agreement has a discrete performance obligation with revenue recognition from the commencement of the agreement and therefore the Group has concluded revenue recognition will be unchanged under IFRS 15.

Accordingly, 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). Revenue is recognised evenly over the period of self-storage.

b) Retail Sales

The Group operates a packaging 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.

The Group provides insurance to customers through a block policy purchased from its insurer. Block policyholders supply VAT exempt insurance transactions as principals rather than insurance related services as intermediaries and accordingly insurance income received from the customer is recognised as revenue rather than offset against the costs of the block policy.

The key characteristics of a block policy are that:

- There is a contract between the block policyholder and the insurer which allows the block policyholder to effect insurance cover subject to certain conditions
- The Group acting in our own name as the block policyholder procures insurance cover for third parties from the insurer
- There is a contractual relationship between the block policyholder and third parties under which the insurance is procured
- The block policyholder stands in place of the insurer in effecting the supply of insurance to the third parties

The Group is not exposed to any insured losses arising from its insurance activity.

d) 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. Fees are invoiced monthly based on revenue performance. Additional performance fees may be earned if an individual Managed Store EBITDA performance exceeds agreed thresholds. Periodic fees may also be earned for additional specific services provided and are invoiced when that service has been completed. Revenue is recognised for each performance condition once the condition has been met.

e) 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. Financial information is reported to the Board with revenue and profit analysed between self-storage activity and serviced archive and records management activity. All activities arise in the United Kingdom.

Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA), is defined as defined as EBITDA before losses or profits on disposal, share-based payments, acquisition costs, and exceptional items, finance income, finance costs and taxation.

Adjusted Store EBITDA

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

Operating Profit

Operating profit is defined as profit after all costs except finance income, finance costs and taxation.

Discontinued Operations

The Group's document storage business was sold on 31 January 2019 and its disposal constitutes a discontinued operation. Separate reporting of discontinued operations is important in providing users of financial statements with the information necessary to determine the effects of a disposal on the ongoing continuing operations of our business. To ensure a clear separation of the financial performance of Continuing Operations, Discontinued Operations are shown separately on the Statement of Comprehensive Income as a profit on disposal (after tax) which combines operating profit with the profit arising on its disposal. The profit on discontinued operations is then aggregated with profit on continuing operations in determining the Group's total net profit.

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 which may 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 is provided in full on the differences between the revalued amount of trading property assets carried in the Statement of Financial Positon and their corresponding tax bases. 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 at grant date using the Black-Scholes pricing model, which is appropriate given the vesting and other conditions attaching to the options. The charge is adjusted to reflect expected and actual levels of vesting.

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. Following the opening of a store during the year amounts held under lease premiums are transferred to property plant and equipment.

Property, Plant and Equipment

Freehold properties and long leasehold properties (classified as finance leases) are measured at fair value which represents the Group's assessment of the highest and best use of the asset. Gains or losses arising from the changes in fair value of the trading properties are included in the Consolidated Statement of Changes in Equity for the period in which they arise. A comprehensive external valuation is performed annually at each reporting date. Once a store is opened lease premiums are transferred to property, plant and equipment and carried at their transferred cost less any accumulated depreciation.

Short leasehold improvements, fixtures, fittings and equipment, and motor vehicles are carried at cost less accumulated depreciation. Expenditure related to the improvement of the buildings is capitalised and depreciated over the remaining period of the lease term.

Assets in the course of construction and land held for development of new stores ('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 and lease premium	over unexpired lease period or renewal term
Short leasehold improvements	over unexpired lease period or renewal term
Fixtures, fittings and equipment	5% 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 of £302,605 (2018: £363,963) is included within total depreciation 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 is subsequently reversed, 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.

Accounting Policies continued

Leased Assets and Obligations

Annual rentals under 'operating leases' 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. Whenever land and buildings are acquired by the Group they will not be acquired under finance leases but rather through a combination of operational cash generated by the Group business supported by bank debt drawn from its revolving credit facility.

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

IFRS 9 covers the classification, measurement and derecognition of financial assets and liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting. The standard is effective for financial years commencing on or after 1 January 2018 and therefore applies for the first time for the current financial year ended 31 July 2019.

There has been no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designed at fair value through the income statement and the Group does not have any such liabilities.

The impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the situation under IAS 39. The significant financial assets held by the Group that will be affected by the impairment losses recognised under IFRS 9 are trade receivables.

Trade receivables as indicated in Note 15 are £1.01 million. As described in Note 15 the Group's exposure to credit risk is low and the Group's credit model robust. The Directors have assessed the impact of impairment losses recognised for trade receivables under IFRS 9 at 31 July 2019 based on actual losses experienced over the past five years and concluded that the impact and volatility on impairment losses recognised under IFRS 9 to be immaterial.

The Company hold intercompany loan and receivables balances with the subsidiaries of the Group as disclosed in Note 15. The Directors do not estimate there to be a material impact on the Company only Financial Statements from the recognition of impairment provisions for the loans and receivables under IFRS 9 adoption.

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.

The Group has an active store development programme and in accordance with IAS 23 has material qualifying assets that take a substantial period of time to develop from acquisition to ultimate store opening. Accordingly borrowing costs have been capitalised in the current year that are directly attributable to the acquisition, construction and fit-out of these qualifying store assets. The Group funds these developments from a general bank revolving credit facility and the capitalisation rate applied is the average cost of these funds. When an individual store development is complete and the store has opened, capitalisation of attributable borrowing costs ceases. In the current year £430,321 interest was capitalised in respect of nine qualifying development assets.

Derivative Financial Instruments and Hedge Accounting

The Group's activities expose it to interest rate risk. The Group has used 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.

There were no financial derivatives held by the Group at 31 July 2018 or 31 July 2019.

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 designates certain derivative instruments as hedges of the 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. The Group currently has no hedging instruments although hedging policy is kept under regular review.

Loans, and Other Receivables

Trade receivables are initially measured at their transaction price. Group and other receivables are initially measured at fair value plus transaction costs. Receivables are held to collect the contractual cash flows which are solely payments of principal and interest. Therefore, these receivables are subsequently measured at amortised cost using the effective interest rate method.

Trade Receivables

For trade receivables, expected credit losses are measured by applying an expected loss rate to the gross carrying amount. The expected loss rate comprises the risk of a default occurring and the expected cash flows on default based on the aging of the receivable. The risk of a default occurring always takes into consideration all possible default events over the expected life of those receivables (the lifetime expected credit losses).

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 and other 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.

Financial Assets

Trade, Group and other debtors which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost being the transaction price less any amounts settled and any impairment losses. Where the Group is entitled to receive cash under a management services agreement at a future specified date this is recorded as a financial asset at the current fair value of the cash ultimately receivable. Where this amount is receivable in more than one year hence the financial asset is presented as a non-current asset.

Impairment of Financial Assets

Financial assets are assessed for indications of impairment at each reporting date. An impairment loss is recognised for the expected credit losses on financial assets when there is an increased probability that the counterparty will be unable to settle an instrument's contractual cash flows on the contractual due dates, a reduction in the amounts expected to be recovered, or both. The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability-weighted amount determined from a range of outcomes and takes into account the time value of money.

Net Debt

Net debt comprises the borrowings of the Group less cash and cash equivalents.

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 financial statements under EU-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 commissions an external valuation of its self-storage stores. This valuation uses 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 10(b). The carrying value of land and buildings held at valuation at the reporting date was £133.5 million (2018: £108.5 million) as shown in the table in Note 10(b).

b) Assets in the Course of Construction and Land Held for 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 fees 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 light of the results of these reviews. Once a store is opened it is valued as a trading store.

The carrying value of development property assets at the reporting date was £18.4 million (2018: £16.6 million). Please see Note 10(b) for more details.

c) Classification of Self-storage Facilities as Owner Occupied Properties Rather than Investment Properties

The Directors consider that Lok'nStore Group plc is the parent company of a 'Trading business' and is not wholly or mainly engaged in making investments. The holding of land is not a core activity.

The Group is an integrated storage solutions business offering a range of services to its customers. We provide services to our customers under contracts for the provision of storage services which do not give them any property or tenancy rights and a large number of the stores we operate are from properties where we do not own the land or the buildings. The assets we do own are valued on the basis of the trading cash flows that the operating businesses generate.

The Group continues to develop its managed stores business where it uses its operational and logistic expertise to provide a full range of services to customers in stores we manage for third party owners. In recent years the Group has developed many new managed stores all of which are owned by third-party investors and managed by Lok'nStore.

Previously owned sites at Woking, Ashford and Swindon have been the subject of sale and manage-back transactions by which Lok'nStore has retained the management of the business when a third party owner acquired the business, land and buildings. During this financial year we completed a sale and manage-back of our Crayford store. All of this trading activity as well as the self-storage income earned from our leasehold stores activity demonstrate that the holding of land is not a core activity because the trading operation is not dependent on the ownership of land. See the chart on page 19 for the changing ownership structure of the stores.

Furthermore the Group has always and continues to comply with all of the usual accounting and tax protocols consistent with a trading business. Lok'nStore operates 34 stores mainly in Southern England. Of the 34 stores, Lok'nStore owns the freehold interest in 15 stores, eight of the stores are held under commercial leases, with the remaining 11 managed stores operating under management contracts for third party owners. One of the features of Lok'nStore's strategy is to increase the number of stores we manage for third parties selling our expertise in storage solutions management, operating systems and marketing, through management fees rather than retaining a proprietary interest in land and buildings.

The classification of self-storage facilities as owner occupied properties rather than investment properties has resulted in the recognition of fair value gains in 2019 (net deferred of tax) of £11.4 million (2018: £13.0 million) in Other Comprehensive Income rather than the Income Statement.

1(a) Revenue

Analysis of the Group's revenue is shown below:

Stores Trading	Group 2019 £'000	Group 2018 £'000
Self-storage revenue	14,235	13,081
Insurance revenue	1,533	1,368
Retail sales	241	230
Total self-storage revenue – owned stores	16,009	14,679
Ancillary store revenue	44	140
Management fees – managed stores	817	534
Sub-total	16,870	15,353
Non-storage income	80	19
Total revenue per statement of comprehensive income	16,950	15,372

The Group's serviced archive and record management segment was sold in the period and is presented as a Discontinued Operation (see Note 12). Following the disposal, the Group has one operating segment, being self-storage in the UK.

2(a) Property, Staff, Distribution and General Costs

	Group 2019 £'000	Group 2018 £'000
Property and premises costs	4,022	3,647
Staff costs	4,111	3,832
General overheads	1,224	1,079
Sub-total operating costs	9,357	8,558
Retail products cost of sales (see Note 2(b))	180	181
	9,537	8,739

2(b) Cost of Sales of Retail Products

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

	Group 2019 £'000	Group 2018 £'000
Retail	121	116
Insurance	26	45
Other	33	20
	180	181

2(c) Other Income and Costs

	Group 2019 £'000	Group 2018 £'000
Profit on sale of land at store [1]	(295)	–
Costs of sale & manage-back Crayford store [2]	54	–
Deferred financing on bank loan written off [3]	133	–
Carried interest – fees receivable [4]	–	(361)
Receipts from warranty claims [5]	–	(230)
	(108)	(591)

2019:

1 Profit on sale of land at store: During the year land at the rear of our Southampton store with a fair value of £500,000 was sold for £800,000. There was £4,043 of associated costs of sale.

2 Costs of sale & manage-back Crayford store: On 28 February 2019 the Crayford store was sold at its fair value to an investment fund for £7.52 million in cash. Lok'nStore will continue to manage the store maintaining the operational footprint of the business and will receive management and performance fees. Legal and professional costs associated with this transaction amounted to £54,483.

3 Deferred financing on bank loan written off. In April 2019, the Group executed a new bank facility increasing facilities available by £25 million to £75 million, with a further £25 million accordion option taking the facility to £100 million. The deferred element of the original financing costs of £133,307 was accordingly written off.

2018:

4 Carried interest fees receivable:

Upon the sale of one of the 'Managed stores' Lok'nStore will be entitled to receive a fee of 5% of the proceeds of the sale (less reasonable selling costs). Due to the uncertainty of the property market and the timing of the ultimate sale the Directors have in previous years believed that it would not yet be appropriate to recognise this as an asset, on the basis that it could not be reliably measured. However there is a backstop date of 2022 at which time a realisation (or a payment based on an independent valuation) must be made to Lok'nStore. Accordingly, the Directors have given due consideration as to the current fair value of the Carried interest – fee receivable and have recognised £361,460 as a non-current financial asset in the financial statements. No change was made to the assessment of fair value in 2019.

5 Receipts from warranty claims relates to receipts due and payable under a mediated settlement agreement.

3 Finance Income

	Group 2019 £'000	Group 2018 £'000
Bank interest	24	7
Other interest	7	73
	31	80

Interest receivable arises on cash and cash equivalents (see Note 17).

4 Finance Costs

	Group 2019 £'000	Group 2018 £'000
Bank interest	452	342
Non-utilisation fees and amortisation of bank loan arrangement fees	153	116
Other interest	–	5
	605	463

5 Profit before Taxation

	Group 2019 £'000	Group 2018 £'000
Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
Owned assets	2,207	1,880
Amortisation of intangible assets	83	165
Operating lease rentals – land and buildings	1,356	1,191
Amounts payable to RSM UK Audit LLP and their associates for audit and non-audit services:		
Audit services		
– UK statutory audit of the Company and consolidated accounts	66	52
Other services		
– the auditing of accounts of subsidiaries of the Company pursuant to legislation	–	15
Other services supplied pursuant to such legislation		
– interim review	12	11
– other services	3	7
Tax services		
– compliance services	23	29
– advisory services	31	10
	135	124
Comprising:		
Audit services	66	67
Non-audit services	69	57
	135	124

6 Employees

	Group 2019 No.	Group 2018 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	132	120
Administration	24	24
	156	144

	Group 2019 £'000	Group 2018 £'000
Costs for the above persons:		
Wages and salaries	3,446	3,170
Social security costs	424	395
Pension costs	85	100
	3,955	3,665
Share based remuneration (options)	46	33
	4,001	3,698

Share based remuneration is separately disclosed in the Statement of Comprehensive Income. Wages and salaries of £90,436 (2018: £149,492) 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 £13,217 (2018: £13,894) outstanding at the year-end.

There were no employees employed by Lok'nStore Group plc in the year (2018: nil).

Directors' Remuneration

Directors' Remuneration 2019	Emoluments £	Bonuses £	Benefits £	Sub Total £	Pension £	Gains on Share Options £	Total £
Executive:							
A Jacobs	220,816	38,250	5,435	264,501	–	–	264,501
RA Davies	160,968	22,641	4,612	188,221	4,829	–	193,050
N Newman-Shepherd	78,931	64,034	2,364	145,329	2,631	–	147,960
Non-Executive:							
SG Thomas	30,900	–	4,804	35,704	–	40,580	76,284
RJ Holmes	22,297	–	–	22,297	–	–	22,297
ETD Luker	27,873	–	–	27,873	–	–	27,873
CP Peal	22,297	–	–	22,297	–	–	22,297
	564,082	124,925	17,215	706,222	7,460	40,580	754,262

Directors' Remuneration 2018	Emoluments £	Bonuses £	Benefits £	Sub Total £	Pension £	Gains on Share Options £	Total £
Executive:							
A Jacobs	216,487	26,000	4,272	246,759	–	–	246,759
RA Davies	131,280	19,222	4,090	154,592	31,190	20,415	206,197
N Newman-Shepherd	75,172	42,477	1,933	119,582	2,255	71,317	193,154
Non-Executive:							
SG Thomas	30,000	–	4,009	34,009	–	–	34,009
RJ Holmes	21,648	–	–	21,648	–	–	21,648
ETD Luker	27,061	–	–	27,061	–	52,275	79,336
CP Peal	21,648	–	–	21,648	–	–	21,648
	523,296	87,699	14,304	625,299	33,445	144,007	802,751

Details of the Directors remuneration is shown above. Key management personnel are defined as the Directors of the Group and the additional participants in the Long Term Partnership Performance Plan (LTPPP).

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 two (2017: two).

Notes to the Financial Statements continued

For the year ended 31 July 2019

7 Taxation

	Group 2019 £'000	Group 2018 £'000
Current tax:		
UK corporation tax	811	837
Deferred tax:		
Origination and reversal of temporary differences	400	292
Adjustments in respect of prior periods	–	330
Total deferred tax	400	622
Income tax expense for the year	1,211	1,459

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

	2019 £'000	2018 £'000
Profit before tax	4,591	4,763
Tax on ordinary activities at the effective standard rate of corporation tax in the UK of 19% (2018: 19%)	880	884
Expenses not deductible for tax purposes	18	–
Depreciation of non-qualifying assets	355	314
Share based payment charges in excess of corresponding tax deduction	2	6
Impact of change in tax rate on timing differences	(17)	–
Adjustments in respect of prior periods – deferred tax	–	330
Other	(27)	(45)
Small companies relief	–	(30)
Income tax expense for the year	1,211	1,459
Effective tax rate	26 %	30%

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 £2.3 million (2018: £2.7 million) has been recognised as a debit/credit directly in other comprehensive income (see Note 19 on deferred tax).

8 Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2017 (7.00 pence per share)	–	2,016
Interim dividend for the six months to 31 January 2018 (3.33 pence per share)	–	961
Final dividend for the year ended 31 July 2018 (7.67 pence per share)	2,217	–
Interim dividend for the six months to 31 January 2019 (3.67 pence per share)	1,062	–
	3,279	2,977

In respect of the current year the Directors propose that a final dividend of 8.33 pence per share will be paid to the Shareholders. The total estimated dividend to be paid is £2.4 million based on the number of shares in issue at 17 October 2019 as adjusted for shares held in the Employee Benefits Trust. 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 28 November 2019; the record date 29 December 2019; with an intended payment date of 10 January 2020. The final deadline for Dividend Reinvestment Election (DRIP) is 13 December 2019.

9 Earnings per Phare

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

	Group 2019 £'000	Group 2018 £'000
Profit for the financial year attributable to Continuing Operations	3,380	3,304
Profit for the financial year attributable to Discontinued Operations	2,182	453
Total profit for the financial year attributable to owners of the parent	5,562	3,757

	2019 No. of Shares	2018 No. of Shares
Weighted average number of shares		
For basic earnings per share	28,921,229	28,792,029
Dilutive effect of share options [1]	481,848	490,064
For diluted earnings per share	29,403,077	29,282,093

623,212 (2018: 623,212) shares are held in the Employee Benefit Trust (see Note 27).

1 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 21 to 24.

Earnings per share	Group 2019	Group 2018
Basic		
Continuing Operations	11.69p	11.48p
Discontinued Operations	7.55p	1.57p
Total basic earnings per share	19.24p	13.05p
Diluted		
Continuing Operations	11.50p	11.28p
Discontinued Operations	7.42p	1.55p
Total diluted earnings per share	18.92p	12.83p

10(a) Intangible Assets

Group	Goodwill £'000	Contractual Customer Relationships £'000	Total £'000
Cost at 1 August 2017	1,110	3,309	4,419
Amortisation at 1 August 2017	–	(991)	(991)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2018	–	(1,156)	(1,156)
Net book value at 31 July 2018	1,110	2,153	3,263
Cost at 1 August 2018	1,110	3,309	4,419
Amortisation at 1 August 2018	–	(1,156)	(1,156)
Amortisation charge	–	(83)	(83)
Disposal	(1,110)	(2,070)	(3,180)
Net book value at 31 July 2019	–	–	–

All goodwill and customer relationships were allocated to the serviced document storage cash-generating unit (CGU) identified as a separate business segment.

On 31 January 2019 Lok'nStore disposed of its serviced document storage business Saracen Datastore Limited (Saracen) for £7.64 million in cash against its Net Book Value as at 31 July 2018 of £5.4 million and which included the value of the intangible assets. The recoverable amount exceeds the carrying amount of the CGU.

10(b) Property, Plant and Equipment

Group	Development Property Assets at Cost £'000	Land and Buildings at Valuation £'000	Long Leasehold 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 2017	5,124	87,548	10,293	2,599	23,984	17	129,565
Additions	18,513	183	–	49	3,190	–	21,935
Reclassification	(7,067)	7,055	–	–	12	–	–
Revaluations	–	13,700	1,145	–	–	–	14,845
31 July 2018	16,570	108,486	11,438	2,648	27,186	17	166,345
Depreciation							
1 August 2017	–	–	–	1,880	10,771	13	12,664
Depreciation	–	753	126	99	1,001	1	1,980
Revaluations	–	(753)	(126)	–	–	–	(879)
31 July 2018	–	–	–	1,979	11,772	14	13,765
Net book value at 31 July 2018	16,570	108,486	11,438	669	15,414	3	152,580
Cost or valuation							
1 August 2018	16,570	108,486	11,438	2,648	27,186	17	166,345
Additions	6,667	2,804	1,493	162	2,744	20	13,890
Additions – Acquisition of subsidiary	–	–	–	1,242	–	–	1,242
Reclassification	(4,185)	17,116	(12,931)	–	–	–	–
Transfers	6	(6)	–	–	–	–	–
Disposals	(616)	(8,058)	–	–	(1,109)	–	(9,783)
Disposals – Discontinued Operations	–	–	–	(84)	(2,267)	(7)	(2,358)
Revaluations	–	13,189	–	–	–	–	13,189
31 July 2019	18,442	133,531	–	3,968	26,554	30	182,525
Depreciation							
1 August 2018	–	–	–	1,979	11,772	14	13,765
Depreciation	–	1,004	–	156	1,091	5	2,256
Disposals	–	(428)	–	–	(726)	–	(1,154)
Disposals – Discontinued Operations	–	–	–	(57)	(640)	(7)	(704)
Revaluations	–	(576)	–	–	–	–	(576)
31 July 2019	–	–	–	2,078	11,497	12	13,587
Net book value at 31 July 2019	18,442	133,531	–	1,890	15,057	18	168,938

10(b) Property, Plant and Equipment continued

The Group has an active store development programme and in accordance with IAS 23 has material qualifying assets that take a substantial period of time to develop from acquisition to ultimate store opening. Accordingly borrowing costs of £430,321 (2018: £197,209) have been capitalised in the current year that are directly attributable to the acquisition, construction and fit-out of these qualifying store assets. £332,326 of the total amount is carried in development property assets and £97,994 is carried in land and buildings following the opening of the Gillingham and Wellingborough stores.

If all property, plant and equipment were stated at historic cost the carrying value would be £81.7 million (2018: £74.1 million).

Capital expenditure during the year totalled £14.0 million (2018: £21.9 million). This was primarily the purchase of our Leicester and Wolverhampton sites, exchanged contracts on our Stevenage site, completion of construction works at our stores in Gillingham and Wellingborough, ongoing construction works at our Leicester store and completing works at our Cardiff and Ipswich stores which are now open and trading. Costs relating to the planning and pre-development works on our Bournemouth, Bedford, and Cheshunt sites also featured. The freehold of our existing Maidenhead store, previously held on a long lease, was also acquired for £1.4 million.

In addition the Group the acquired The Box Room (Self Storage) Limited a trading store located in Hedge End, Southampton.

During the year land at the rear of our Southampton store with a fair value of £500,000 was sold for £800,000.

On 28 February 2019 the Crayford store was sold to an investment fund for £7.42 million in cash. Lok'nStore will continue to manage the store maintaining the operational footprint of the business and will receive management and performance fees.

Property, plant and equipment (non-current assets) with a carrying value of £169.0 million (2018: £152.6 million) are pledged as security for bank loans.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2019 a professional valuation was prepared by Jones Lang LaSalle Limited (JLL) in respect of 15 freehold, and eight operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation – Global Standards 2017, published by The Royal Institution of Chartered Surveyors (the RICS Red Book) and the valuation methodology is explained in more detail below. The valuations were prepared on the basis of Fair Value as a fully equipped operational entity having regard to trading potential. 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 RICS Red Book JLL have confirmed that:

- This is the third year that JLL has been appointed to value the properties;
- The valuers who prepared the valuation have the necessary skills and experience having been significantly involved in the sector;
- JLL do not provide other significant professional or agency services to the Company; and
- In relation to the preceding financial year of JLL the proportion of the total fees payable by the Company to the total fee income of the firm is less than 5% and is minimal.

The valuation report indicates a total valuation for all properties valued of £162.7 million (2018: £146.2 million) of which £144.0 million (2018: £128.0 million) relates to freehold properties, and £18.7 million (2018: £18.2 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 fair value as fully equipped operational entities, having regard to trading potential. Of the £144.0 million valuation of the freehold and long leasehold properties £13.0 million (2018: £11.7 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £131.0 million (2018: £116.3 million) relates to freehold and long leasehold properties.

The 2019 valuation includes and reflects movements in value which have resulted from the operational performance of the stores and movements in the investment environment.

Valuation Methodology

Jones Lang LaSalle Limited (JLL) have adopted the profits method of valuation, and cross checked with the direct comparison method based on recent transactions in the sector, which is the main method of pricing adopted by purchasers of self storage properties.

JLL have valued the assets on an individual basis and have disregarded any portfolio effect.

The profits method of valuation considers the cash flow generated by the trading potential of the self storage facility. Due to the specialised design and use of the buildings, the value is typically based on their ability to generate a net income from operating as self storage facilities.

JLL have constructed a discounted cash flow model. This sets out their explicit assumptions on the underlying cash flow that they believe could be generated by a Reasonably Efficient Operator at each of the properties, both at the valuation date and in the near future as the properties increase their occupancy and rates charged to customers. Judgements are made as to the trading potential and likely long term sustainable occupancy.

Stable occupancy depends upon the nature of demand, size of property and nearby competition, and allows for a reasonable vacancy rate to enable the operator to sell units to new customers. In the valuation the assumed stabilised occupancy level for the 23 trading stores (both freeholds and leaseholds) averages 84.3% (2018: 84.1%).

Expenditure is deducted (such as business rates, staff costs, repair and maintenance, utilities, marketing and bad debts) as well as an operator's charge which takes account of central costs. JLL also make an allowance for long term capex requirements where applicable.

- The cash flow for freeholds runs for an explicit period of 10 years, after which it is capitalised at an all risks yield which reflects the implicit future growth of the business, or a hypothetical sale.
- The cash flow for leaseholds continues for the unexpired term of the lease.
- The discount rate applied has had regard to recent transactions, weighted average costs of capital and target return in other asset types with adjustments made to reflect differences in the risk and liquidity profile.
- The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 10.09% (2018: 10.58%). The yield arising from the first year of the projected cash flow is 5.99% (2018: 6.35%), rising to 8.74% (2018: 9.39%) in year five.
- JLL have assumed purchasers costs of 6.8% (2018: 6.8%).
- The average stabilised occupancy is 84.3% (2018: 84.1%).
- The average exit yield assumed is 7.22% (2018: 7.42%).

The comparison method considers recent transactions where self-storage properties have sold, and then adjusts them based on a multiple of current earnings, and a capital value per square foot. They are adjusted to reflect differences in location, physical characteristics, local supply and demand, tenure and trading levels.

JLL reported that the Lok'nStore portfolio has generally performed very well in terms of increasing occupancy over the course of the year which has driven the assumed stabilised occupancy higher.

For leaseholds the same methodology has been used as for freehold property, except that no sale of the assets in the tenth year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 11 years and 0 months as at 31 July 2019 (11 years and 1 month: 31 July 2018). 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 leases 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 JLL 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 previous years.

The fair value hierarchy within which the Fair Value measurements are categorised is level 3, in accordance with IFRS 13 fair value measurements.

10(b) Property, Plant and Equipment continued

Directors' Valuation of Land and Property

The old Southampton store: Following the opening of the new Southampton store with the corresponding transfer of all customers from the old Southampton store, the vacant building was redeveloped for cruise parking. Market evidence suggested that there was a potential market in Southampton for car parking for cruise liner passengers and that this property with its proximity to the Southampton port was appropriate to this use and could potentially deliver more Shareholder value than merely a sale of the building. The building was converted to this use costing £1.195 million (£1.103 million net of depreciation) and started trading as 'Park'nCruise' in May 2017. Trading however was slower than expected and would take much longer to build. In 2019 the Board concluded that management time and capital could be more effectively deployed within the self-storage business and the operation was closed. Accordingly the Directors placed their valuation on the current developed site at £2.5 million which is their best estimate of the potential realisable value of the site.

The new Southampton store: Following the development and opening of the new Southampton store there remained land to the rear of the building which was held pending a subsequent expansion of the store. During the year the Group sold this land with a fair value of £500,000 for £800,000.

The total value of land and property carried at Director Valuation at 31 July 2019 is £2.51 million (2018: £3.60 million).

11 Acquisition of Hedge End

On 30 November 2018 Lok'nStore purchased the entire share capital of The Box Room (Self Storage) Limited comprising an existing single store operation of 42,000 sq. ft. in Hedge End Southampton for a consideration of £1.13 million in cash. The Group considers this to be a good leasehold operation in a known market place which will benefit from Lok'nStore's operating systems and digital platform.

Hedge End Net assets acquired	Book Value £'000	Provisional Fair Value Adjustments £'000	30 November 2018 £'000
Assets			
Property, plant and equipment	372	870	1,242
Trade and other receivables	33	–	33
Prepayments and other debtors	10	–	10
Cash and cash equivalents	4	–	4
Total assets	419	870	1,289
Liabilities			
Trade and other payables	(47)	–	(47)
Accruals	(6)	–	(6)
Current tax liabilities	(53)	–	(53)
Deferred tax liabilities *	(24)	–	(24)
Finance leases	(29)	–	(29)
Total liabilities	(159)	–	(159)
Fair value of identifiable assets and liabilities	260	870	1,130
Non-controlling interest	–	–	–
Goodwill	–	–	–
Total consideration	260	870	1,130

* Deferred tax potentially arising on the fair value adjustment on acquisition is not considered material in the context of the Group's current deferred tax provision of £22.4 million and is ignored.

The store has been rebranded and refurbished and we expect returns to rise as this takes effect. Staff costs are expected to reduce to come in line with other Lok'nStore stores raising the margins towards the Group's average.

12 Disposal of Saracen Datastore Limited

On 31 January 2019 Lok'nStore disposed of its serviced document storage business Saracen Datastore Limited (Saracen) for £7.64 million in cash against its Net Book Value as at 31 July 2018 of £5.4 million.

In the short term the disposal proceeds will be used to reduce overall Group borrowing and will improve all key banking ratios. In the medium term the disposal proceeds will be used to fund the ongoing investment into our highly accretive development pipeline of new self-storage centres, fulfilling the Company's objective of growing asset value by recycling capital from lower growth assets into high growth landmark stores.

The fees and costs of sale associated with the disposal amounted to £294,866. The proceeds of disposal net of disposal costs is treated as a receipt in Investing Activities in the Consolidated Cash Flow Statement and contributed £6.85 million to the increase in cash and cash equivalents during the year.

Key amounts relating to the discontinued operation are as follows:

	31 July 2019 £'000	31 July 2018 £'000
Revenue	1,156	2,382
Expenses	(902)	(1,720)
EBITDA	254	662
Depreciation	(48)	(100)
Finance income/costs	3	–
Profit before tax	209	562
Tax	8	(109)
Profit after tax	217	453
Profit on disposal of subsidiary	1,965	–
Tax on disposal profit	–	–
After tax disposal profit	1,965	–
Total profit on Discontinued Operations	2,182	453

Before disposal, Saracen contributed £1.16 million to the Group's revenue and £0.25 million to its EBITDA in the period up to its disposal on 31 January 2019. The carrying value of Saracen Datastore's assets and liabilities that were sold on 31 January 2019 was as follows:

Assets	£'000
Non-current assets	
Intangible assets	3,180
Property, plant and equipment	1,654
	4,834
Current assets	
Inventories	5
Receivables	722
Cash	508
	1,235
Total assets	6,069
Current liabilities	(603)
Non-current liabilities	(79)
Total liabilities	(682)
Net assets disposed of	5,387
Cash proceeds (net of fees/costs of disposal)	7,352
Profit on disposal	1,965

The profit on disposal is included in profit on Discontinued Operations in the Consolidated Statement of Comprehensive Income.

The Group believes that Substantial Shareholder Relief would be available on the gain made on the disposal of the shares. Proceeds from disposal of Discontinued Operations (net of disposal costs and cash included in sale) is presented as an Investing Activity in the Consolidated Statement of Cash Flows.

13 Investments

Company Investments in subsidiary undertakings	£'000
31 July 2017	2,385
Capital contributions arising from share-based payments	33
31 July 2018	2,418
Capital contributions arising from share-based payments	46
31 July 2019	2,464

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 Entity
Lok'nStore Limited[*#]	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited[1*†]	Ordinary	–	100	Trustee
Southern Engineering and Machinery Company Limited[1*#]	Ordinary	–	100	Self-storage
Semco Machine Tools Limited[2*#]	Ordinary	–	100	Dormant
Semco Engineering Limited[2*#]	Ordinary	–	100	Dormant
Saracen Datastore Limited[1#@]	Ordinary	–	100	Serviced Document Storage
ParknCruise Limited[1†]	Ordinary	–	100	Dormant
The Box Room (Self Storage) Limited[1†]	Ordinary	–	100	Self-storage

1 These companies are subsidiaries of Lok'nStore Limited.

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

* These companies have taken the exemption from audit under Section 479A of the Companies Act 2006.

† The address of these companies is 112, Hawley Lane, Farnborough, Hants. GU14 8JE.

The address of these companies is 1, Fleet Place London EC4M 7WS.

@ The serviced document storage business was sold during the year.

14 Inventories

	Group 2019 £'000	Group 2018 £'000
Consumables and goods for resale	298	257

The amount of inventories recognised in cost of sales as an expense during the year was £120,954 (2018: £160,177). (See Note 2(b)).

15 Trade and Other Receivables

	Group 2019 £'000	Group 2018 £'000
Trade receivables	1,055	1,969
Other receivables	2,270	1,927
Prepayments and accrued income	382	580
	3,707	4,476

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

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

	Company 2019 £'000	Company 2018 £'000
Net amount due from Lok'nStore Limited	14,576	13,940

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand.

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 expected credit losses.

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 document storage business, customers are invoiced typically monthly in advance for the storage of their boxes, tapes and files. The provision of additional services, such as document boxes or tape collection and retrieval from archive, typically are invoiced monthly in arrears.

Included in the Group's trade receivables balance are receivables with a carrying amount of £55,049 (2018: £57,006) 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 51 days past due (2018: 51 days past due).

Ageing of Past Due but not Impaired Receivables

	Group 2019 £'000	Group 2018 £'000
0–30 days	14	15
30–60 days	4	4
60+ days	37	38
Total	55	57

Movement in the Allowance for Credit Losses

	Group 2019 £'000	Group 2018 £'000
Balance at the beginning of the year	165	161
Impairment losses recognised	39	40
Amounts written off as uncollectible	(13)	(36)
Balance at the end of the year	191	165

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.

15 Trade and Other Receivables continued

Ageing of impaired trade receivables

	Group 2019 £'000	Group 2018 £'000
0–30 days	–	–
30–60 days	–	–
60+ days	191	165
Total	191	165

16 Trade and Other Payables

	Group 2019 £'000	Group 2018 £'000
Trade payables	640	1,102
Taxation and social security costs	388	313
Other payables	1,115	1,340
Accruals and deferred income	2,610	2,404
	4,753	5,159

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

17 Financial Instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 18, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. 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 relatively conservative gearing ratio (the proportion of net debt to equity) balancing the overall level with the opportunities for the growth of the business. 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 2019 £'000	Group 2018 £'000
Gross borrowings	(42,972)	(37,335)
Cash and cash equivalents	13,662	4,990
Net debt	(29,310)	(32,345)
Total equity	117,158	103,251
Net debt to equity ratio	25.1%	31.3 %

The decrease in the Group's gearing ratio arises principally through the combined effect of an increase in the value of its trading properties, and the cash generated from operations during the year and the sale of the Group's document storage business. These effects on gearing were offset by the purchase of our Leicester and Wolverhampton and Stevenage sites and completion of construction works at our development sites in Gillingham and Wellingborough, ongoing construction works at our Leicester store and completing works at our Cardiff and Ipswich stores which are now open and trading. Costs relating to the planning and pre-development works on our Bournemouth, Bedford, and Cheshunt sites also featured. The freehold of our existing Maidenhead store, previously held on a long lease, was also acquired for £1.5 million.

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

A Derivative Financial Instruments and Hedge Accounting

The Group's activities expose it primarily to the financial risks of interest rates. The Group previously has hedged through the deployment of interest rate swaps although the Group had no such instruments in place at 31 July 2018 or 31 July 2019. The Board continues to keep its hedging policy under periodic review.

B Debt Management

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

The Group borrows through a joint revolving credit facility with Royal Bank of Scotland plc and Lloyds Banking Group secured on its store portfolio and other Group assets, excluding intangibles, with a net book value of £187.0 million (2018: £162.6 million). Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its stores and to maintain short-term liquidity. As at the reporting date the Group has a committed revolving credit facility of £75 million (2018: £50 million). This facility provides an accordion £25 million which can take the facility to £100 million and runs to 2024 with an option of two one year extensions. Undrawn committed facilities at the year-end amounted to £32.0 million (2018: £12.7 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 18. The Group has a number of revolving loans within its overall revolving credit facility and as such is exposed to interest rate risks at the time of renewal arising from any upward movement in the LIBOR rate.

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[1]. All amounts are denominated in Sterling. The balances at 31 July 2019 are as follows:

	Group 2019 £'000	Group 2018 £'000
Variable rate treasury deposits [1]	12,232	4,337
SIP trustee deposits	63	40
Cash in operating current accounts	1,357	582
Other cash and cash equivalents	10	31
Total cash and cash equivalents	13,662	4,990

1 Money market rates for the Group's variable rate treasury deposit track Royal Bank of Scotland plc base rate. The rate attributable to the variable rate deposits at 31 July 2019 was 0.1%. (2018: 0.1%).

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.

D Interest Rate Sensitivity Analysis

Over the longer term, significant changes in interest rates may have an impact on consolidated earnings.

At 31 July 2019, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £429,717 (2018: £373,345) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £429,717 (2018: £373,345). 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 of 2.11% applying to the variable rate borrowings of £43.0 million in the year (2018: £37.3 million / 1.85%).

17 Financial Instruments continued

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 overleaf 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 15. There has not been a significant change in credit quality. The Group has a robust credit model with customers paying four weekly in advance for their storage. The Group has no significant concentration of credit risk, with exposure spread across over 11,800 customers and with no individual self-storage customer accounting for more than 1% of total revenue and no Group entities under common control (e.g. Government) accounting for more than 10% of total revenues. The Group holds a right of lien over its self-storage customers' goods if customer debts are not paid although this is used relatively infrequently within the context of overall customer numbers and only ever as a final stage in the debt recovery process.

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 2019 was £3.38 million (2018: £3.06 million) on receivables and £13.67 million (2018: £4.99 million) on cash and cash equivalents.

H Maturity Analysis of Financial Liabilities

The undiscounted contractual cash flow maturities are as follows:

2019 – Group	Trade and Other Payables £'000	Borrowings £'000	Interest on Borrowings £'000
Over five years	–	–	–
From two to five years	–	42,972	2,474
From one to two years	–	–	906
Due after more than one year	–	42,972	3,380
Due within one year	2,199	–	906
Total contractual undiscounted cash flows	2,199	42,972	4,286

2018 – Group	Trade and Other Payables £'000	Borrowings £'000	Interest on Borrowings £'000
Over five years	–	–	–
From two to five years	–	37,335	1,307
From one to two years	–	–	532
Due after more than one year	–	37,335	1,839
Due within one year	2,728	–	532
Total contractual undiscounted cash flows	2,728	37,335	2,371

I Fair Values of Financial Instruments

	Group 2019 £'000	Group 2018 £'000
Categories of financial assets and financial liabilities		
Financial assets – loans and receivables at amortised cost		
Trade and other receivables[1]	3,992	4,616
Cash and cash equivalents	13,662	4,990
Financial liabilities – other financial liabilities at amortised cost		
Trade and other payables	(2,199)	(2,728)
Bank loans	(42,331)	(37,170)

1 Includes £361,460 relating to fees receivable in 2022 from the Aldershot managed store currently classified as a non-current asset (measured at fair value).

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 financial assets are amounts owed by subsidiary undertakings amounting to £14.6 million (2018: £13.9 million) which are classified as loans and receivables, and the investment in its subsidiary undertaking of £2.46 million (2018: £2.42 million). These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

18 Borrowings

	Group 2019 £'000	Group 2018 £'000
Non-current		
Bank loans repayable in more than five years (Gross)	–	–
Bank loans repayable in more than two years but not more than five years (Gross)	42,972	37,335
Deferred financing costs	(641)	(165)
Net bank borrowings	42,331	37,170
Non-current borrowings	42,331	37,170

In April 2019, the Group agreed a new joint banking facility with Lloyds Bank and Royal Bank of Scotland plc. The new £75 million five year revolving credit facility replaces the existing £50 million facility and will provide funding for site acquisitions and working capital. The facility provides an accordion £25 million which can take the facility to £100 million and runs to April 2024 with an option of two one year extensions.

The facility is closely aligned to the terms of the Group's previous facility. The interest rate is set at the London Inter-Bank Offer Rate (LIBOR) plus a 1.50%–1.75% margin based on a loan to value covenant test. The Group is not obliged to make any repayments prior to its expiration in January 2023.

The Group currently has £43.0 million drawn against its existing £75 million revolving credit facility which is secured with RBS and Lloyds jointly by legal charges and debentures over the freehold and leasehold properties and other tangible assets of the business with a net book value of £152.6 million (2018: £152.6 million) together with cross-company guarantees from Group companies.

19 Deferred Tax

Deferred tax liability	Group 2019 £'000	Group 2018 £'000
Liability at start of year	19,735	16,363
Charge to income for the year – Continued Operations	400	622
Charge to income for the year – Discontinued Operations	32	22
Total charge to income for the year – Discontinued Operations	432	644
Tax charged directly to other comprehensive income	2,327	2,698
Tax credited – disposal of subsidiary	(134)	–
Initial recognition on acquisition of subsidiary	24	–
Credit to share based payment reserve	1	30
Liability at end of year	22,385	19,735

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

	Accelerated Capital Allowances £'000	Other Temporary Differences £'000	Revaluation of Properties £'000	Rolled Over gain on Disposal £'000	Share Options £'000	Total £'000
At 1 August 2017	2,196	411	11,881	2,146	(271)	16,363
Charge/(credit) to income for the year	683	(28)	–	(11)	–	644
Charge to other comprehensive income	–	–	2,687	11	–	2,698
Charge to share based payment reserve	–	–	–	–	30	30
At 31 July 2018	2,879	383	14,568	2,146	(241)	19,735
Charge/(credit) to income for the year	336	(14)	–	–	–	322
Charge to other comprehensive income	–	–	2,327	–	–	2,327
Reclassification following store disposal	–	–	(558)	558	–	–
Charge to share based payment reserve	–	–	–	–	1	1
At 31 July 2019	3,215	369	16,337	2,704	(240)	22,385

20 Share Capital

Authorised:	2019 £'000	2018| £'000
35,000,000 ordinary shares of 1 pence each (2018: 35,000,000)	350	350

Allotted, issued and fully paid ordinary shares	£'000	£'000
Balance at start of year	295	293
Options exercised during the year 85,171 (2018: 195,692)	1	2
Balance at end of year	296	295

	Called up, Allotted and Fully Paid Number	Called up, Allotted and Fully Paid Number
Number of shares at start of the year	29,498,615	29,302,923
Options exercised during the year	85,171	195,692
Number of shares at end of the year	29,583,786	29,498,615

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

21 Equity Settled Share-based Payment Plans

The Group operates three equity-settled share-based payment plans; one approved and two unapproved share option schemes.

The Company has the following share options:

2019 Summary	As at 31 July 2018 No. of Options	Granted	Exercised	Lapsed/ Surrendered	As at 31 July 2019 No. of Options
Unapproved Share Options (refer to Note 23(a))	817,551	3,300	(70,000)	–	750,851
Unapproved Share Options (LTPPP Scheme) – refer to Note 23(b))	140,000	400,000	–	–	540,000
Approved CSOP Share Options (refer to Note 24)	92,199	15,673	(9,952)	(2,981)	94,939
Total	1,049,750	418,973	(79,952)	(2,981)	1,385,790

2018 Summary	As at 31 July 2017 No. of Options	Granted	Exercised	Lapsed/ Surrendered	As at 31 July 2018 No. of Options
Unapproved Share Options (refer to Note 23(a))	964,108	4,343	(145,095)	(5,805)	817,551
Unapproved Share Options (LTPPP Scheme) – refer to Note 23(b)	–	140,000	–	–	140,000
Approved CSOP Share Options (refer to Note 24)	135,378	21,493	(55,814)	(8,858)	92,199
Total	1,099,486	165,836	(200,909)	(14,663)	1,049,750

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

2019	Total at 31 July 2018	Options Granted	Options Exercised/ Lapsed	Unapproved Scheme	Approved CSOP Share Options	Total at 31 July 2019
Executive Directors						
A Jacobs – Unapproved	206,087	–	–	206,087	–	206,087
A Jacobs – LTPPP	–	80,000	–	80,000	–	80,000
A Jacobs – total	206,087	80,000	–	286,087	–	286,087
RA Davies – Unapproved	246,977	–	–	246,977	–	246,977
RA Davies – CSOP	7,742	–	–	–	7,742	7,742
RA Davies – LTPPP	–	80,000	–	80,000	–	80,000
RA Davies total	254,719	80,000	–	326,977	7,742	334,719
N Newman-Shepherd – Unapproved	172,421	–	–	172,421	–	172,421
N Newman-Shepherd – CSOP	10,661	–	–	–	10,661	10,661
N Newman-Shepherd – LTPPP	–	120,000	–	120,000	–	120,000
N Newman-Shepherd total	183,082	120,000	–	292,421	10,661	303,082
Non-Executive Directors						
SG Thomas – Unapproved	25,217	–	(20,000)	5,217	–	5,217
All Directors total	669,105	280,000	(20,000)	910,702	18,403	929,105

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 two and a half, three or five years, subject to the performance criteria attached to the options.

Under the CSOP Approved Share Option scheme (Note 24) and the Unapproved Share Options scheme (Note 23(a)), 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. Exercise of an option is subject to continued employment or in the case of unapproved options at the discretion of the Board. The life of each option granted is six and a half to seven years. There are no cash settlement alternatives.

21 Equity Settled Share-based Payment Plans continued

The rules governing the LTPPP scheme are disclosed in Note 23(b).

Under the CSOP Approved Share Option scheme (Note 24) and the Unapproved Share Options scheme (Note 23(a)), 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 and a half years which is part way between vesting (two and a half to 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 and a half years).

Under the Long Term Partnership Performance Plan (Note 23(b)), 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 12.4 years, which is halfway between vesting and lapse. The vesting date is based upon the assumption that the CAD and/or NAV targets are met at the same time as the share price target is met, and the lapse date is the fifteenth anniversary of the grant. The risk free rate of return is the UK gilt rate at date of grant commensurate with the expected term (i.e. 12.4 years).

The total charge for the year relating to employer share-based payment schemes was £46,221 (2018: £33,339), all of which relates to equity-settled share-based payment transactions.

22 Enterprise Management Initiative Scheme

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

The Group has for some years no longer met the EMI Scheme qualifying criteria. Accordingly, there were no options issued under this scheme during the year, and no options remained at the year-end. The scheme is now closed.

23(a) Unapproved Share Options

The Company issues unapproved share options, the vesting conditions of which have been met.

Movements in the year are shown below:

	Options 2019 Number	Weighted Average Exercise Price 2019 Pence	Options 2018 Number	Weighted Average Exercise Price 2018 pence
Outstanding at 1 August	817,551	174.59	964,108	167.57
Granted during the year	3,300	527.00	4,343	402.50
Forfeited during the year	–	–	(5,805)	387.50
Exercised during the year	(70,000)	146.46	(145,095)	126.23
Outstanding at 31 July	750,851	178.76	817,551	174.59
Exercisable at 31 July	704,982	164.43	718,453	150.79

The options outstanding at 31 July 2019 had a weighted average remaining contractual life of 6.6 years (2018: 6.6 years). The exercise prices for shares exercisable at 31 July 2019 ranged from 56.50 pence per share to 3.25 pence per share.

The following sets out the movements in the year in respect of unapproved share options held by the Directors of the Company.

	As at 31 July 2018	Granted	Exercised/ Lapsed	As at 31 July 2019	Exercise Price Pence	Date from Which Exercisable	Expiry Date
A Jacobs	206,087	–	–	206,087	1.085 – 2.855	31/7/15 – 6/8/18	31/7/22 – 6/8/25
SG Thomas	25,217	–	(20,000)	5,217	2.070 – 2.855	31/7/17 – 6/8/18	31/1/24 – 6/8/25
RA Davies	246,977	–	–	246,977	0.850 – 2.135	31/7/10 – 31/7/17	31/7/17 – 31/7/27
N Newman-Shepherd	172,421	–	–	172,421	1.070 – 3.875	31/7/11 – 31/7/20	31/7/18 – 31/7/27
Total	650,702	–	(20,000)	630,702			

23(b) Unapproved Share Options – Long Term Partnership Performance Plan (LTPPP)

On 2 July 2018 the Group adopted the Company Long Term Partnership Performance Plan (LTPPP).

The Plan is a discretionary benefit offered by the Company for the benefit of selected key employees. Its main purpose is to increase the interest of the employees in the Group's long term business goals and performance through share ownership.

Shares purchased or received under the Plan, any cash received under the Plan and any gains obtained under the Plan are not part of salary for any purpose except to any extent required by statute. The Remuneration Committee of the Board of the Company shall have the right to decide, in its sole discretion, whether or not awards will be granted and to which employees those awards will be granted.

A summary of the structure and rules of the Plan are set out below:

Structure

- Options are granted on Lok'nStore Group plc shares.
- The exercise price is at £6 is well above the current price to allow the issuance of more options increasing member returns if ambitious targets are hit.
- Options are to be issued to participants in five annual tranches from July 2018 to July 2022.
- Participants will have 10 years to exercise from vesting dates.
- Performance criteria are geared to achievement of ambitious long term plan.
- Performance targets of share price, NAV and CAD thresholds for each award. NAV and CAD thresholds to be determined each year by the Remuneration Committee.
- Alternative exercise methods can be considered by the Group:
  - Participants may exercise and hold – paying tax arising;
  - Participants may exercise and sell – paying tax arising;
  - Group delivers net profit to participants in cash or shares.

Main Rules and Conditions

- Conditional on participants remaining in employment with the Group.
- Replaces LTPRP for participating members.
- Existing cash bonus schemes remain in place.
- All options vest if there is a change of control.
- Includes Good / Bad Leaver clauses.
- The Scheme is entirely at the discretion of the Remuneration Committee who act on behalf of the Board.

Movements in the year are shown below:

	Options Number	Weighted Average Exercise Price Pence
Outstanding at 1 August 2018	140,000	600.00
Granted during the year	400,000	600.00
Outstanding at 31 July 2019	540,000	600.00
Exercisable at 31 July 2019	–	–

23(b) Unapproved Share Options – Long Term Partnership Performance Plan (LTPPP) continued

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

	As at 31 July 2018	Granted	As at 31 July 2019	Exercise Price Pence	Date from Which Exercisable	Expiry Date
A Jacobs	–	40,000	40,000	600.00	31/07/2023	31/07/2033
A Jacobs	–	40,000	40,000	600.00	31/07/2024	31/07/2034
A Jacobs – Total	–	80,000	80,000			
RA Davies	–	40,000	40,000	600.00	31/07/2023	31/07/2033
RA Davies	–	40,000	40,000	600.00	31/07/2024	31/07/2034
RA Davies – Total	–	80,000	80,000			
N Newman-Shepherd	–	60,000	60,000	600.00	31/07/2023	31/07/2033
N Newman-Shepherd	–	60,000	60,000	600.00	31/07/2024	31/07/2034
N Newman-Shepherd – Total	–	120,000	120,000			
Total	–	280,000	280,000			

24 CSOP Approved Share Options

On 2 June 2010 the Group adopted a Company Share Option Plan (CSOP). The CSOP 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 2019 Number	Weighted Average Exercise Price 2019 Pence	Options 2018 Number	Weighted Average Exercise Price 2018 Pence
Outstanding at 1 August	92,199	311.59	135,378	250.22
Granted during the year	15,673	527.00	21,493	402.50
Forfeited/surrendered during the year	(2,981)	402.50	(8,858)	338.65
Exercised during the year	(9,952)	269.79	(55,814)	193.46
Outstanding at 31 July	94,939	261.68	92,199	311.59
Exercisable at 31 July	42,204	241.78	39,537	222.27

The options outstanding at 31 July 2019 had a weighted average remaining contractual life of 10.5 years (2018: 9.9 years). The exercise prices for shares exercisable at 31 July 2019 ranged from 107.0 pence per share to 325.0 pence per share.

The inputs into the Black-Scholes model used to value the options granted during the year 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
31 July 2018	6.50	402.50	402.50	24.59	2.57	1.15	72.0

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

	As at 31 July 2018	Granted	Exercised/ Lapsed	As at 31 July 2019	Exercise Price Pence	Date from Which Exercisable	Expiry Date
RA Davies	7,742	–	–	7,742	3.875	31/7/20	31/7/27
N Newman-Shepherd	10,661	–	–	10,661	1.070 – 3.875	31/7/14 – 31/7/20	31/7/21 –31/7/27
	18,403	–	–	18,403			

25(a) Other Reserves

Group	Merger Reserve £'000	Other Reserve £'000	Capital Redemption Reserve £'000	Share-based Payment Reserve £'000	Total £'000
1 August 2018	6,295	1,294	34	740	8,363
Share based remuneration (options)	–	–	–	33	33
IFRS 2 – transfer (to)/from retained earnings	–	–	–	(109)	(109)
Tax charge relating to share options	–	–	–	(30)	(30)
31 July 2018	6,295	1,294	34	740	8,363
Share based remuneration (options)	–	–	–	46	46
IFRS 2 – transfer (to)/from retained earnings	–	–	–	(51)	(51)
Tax charge relating to share options	–	–	–	(1)	(1)
31 July 2019	6,295	1,294	34	734	8,357

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.

Share Based Payment Reserve

Under IFRS 2 there is the option to make transfers from the share based payment reserve to retained earnings in respect of accumulated share option charges where the options have either been exercised or have lapsed post-vesting. The total amounts calculated and accordingly transferred to retained earnings amounted to £51,295 (2018: £109,218).

25(b) Other Reserves

Company	Other Reserve £'000	Share-based payment Reserve £'000	Total £'000
1 August 2017	1,114	805	1,919
Share based remuneration (options)	–	33	33
IFRS 2 – transfer to retained earnings	–	(109)	(109)
31 July 2018	1,114	729	1,843
Share based remuneration (options)	–	46	46
IFRS 2 – transfer to/from retained earnings	–	(51)	(51)
31 July 2019	1,114	724	1,838

Notes to the Financial Statements continued

For the year ended 31 July 2019

26(a) Retained Earnings

Group	Retained Earnings Before Deduction of Own Shares £'000	Own Shares (Note 27) £'000	Retained Earnings Total £'000
1 August 2017	18,664	(500)	18,164
Profit attributable to owners of Parent for the financial year	3,757	–	3,757
Transfer from revaluation reserve (Additional depreciation on revaluation)	291	–	291
Transfer from share based payment reserve (Note 25(a))	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	19,844	(500)	19,344
Profit attributable to owners of Parent for the financial year	5,562	–	5,562
Transfer from revaluation reserve (Additional depreciation on revaluation)	304	–	304
Transfer from share based payment reserve (Note 25(a))	51	–	51
Dividend paid	(3,279)	–	(3,279)
Asset disposals	4,927	–	4,927
31 July 2019	27,409	(500)	26,909

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.

26(b) Retained Earnings

	Retained Earnings Before Deduction of Own Shares £'000	Own Shares (Note 27) £'000	Retained Earnings Total £'000
1 August 2017	3,166	–	3,166
Profit attributable to owners of Company for the financial year			
Transfer from share based payment reserve (Note 25(a))	3,572	–	3,572
Disposal of treasury shares – restated	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	3,870	–	3,870
Profit attributable to owners of Company for the financial year	3,774	–	3,774
Transfer from share based payment reserve (Note 25(a))	51	–	51
Dividend paid	(3,279)	–	(3,279)
31 July 2019	4,416	–	4,416

27 Own Shares

	EBT Shares Number	EBT Shares £	Treasury Shares Number	Treasury Shares £	Own Shares Total £
31 July 2018 and 31 July 2019	623,212	499,910	–	–	499,910

Employee Benefit Trust (EBT): 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 2019, the Trust held 623,212 (2018: 623,212) ordinary shares of 1 pence each with a market value of £3,284,327 (2018: £2,508,428). No shares were transferred out of the scheme during the year (2018: nil).

No options have been granted under the EBT. The EBT waived its dividends in full. No other dividends were waived during the year.

28 Cash Flows

(a) Reconciliation of Profit Before Tax to Cash Generated from Operations

	Group 2019 £'000	Group 2018 £'000
Profit before tax – Continuing Operations	4,590	4,763
Profit before tax – Discontinued Operations	2,175	562
Total profit before tax	6,765	5,325
Depreciation	2,256	1,980
Amortisation of intangible assets	83	165
Equity settled share based payments	46	33
Warranty claims	–	(230)
Carried interest – fees receivable	–	(361)
Profit on sale of land at store	(295)	–
Profit on disposal of Saracen business	(1,965)	–
Costs of sale & manage-back Crayford store	54	–
Deferred financing on bank loan written off	133	–
Finance income	(31)	(80)
Finance cost	605	463
Increase in inventories	(41)	(54)
Decrease / (Increase) in receivables	768	(571)
(Decrease) / Increase in payables	(311)	312
Cash generated from operations	8,067	6,982

28 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 18 less cash and cash equivalents.

	Group 2019 £'000	Group 2018 £'000
Increase / (decrease) in cash in the year	9,181	(6,396)
Change in net debt resulting from cash flows	(6,146)	(8,519)
Movement in net debt in year	3,035	(14,915)
Net debt brought forward	(32,345)	(17,430)
Net debt carried forward	(29,310)	(32,345)

29 Commitments Under Operating Leases

At 31 July 2019 the total future minimum lease payments as a lessee under non-cancellable operating leases were as follows:

	Group 2019 £'000	Group 2018 £'000
Land and buildings Amounts due:		
Within one year	1,517	1,467
Between two and five years	5,358	5,868
After five years	8,165	7,036
	15,040	14,371

Operating lease payments represent rentals payable by the Group for certain of its properties. Typically leases are negotiated for a term of 20 years and rentals are fixed for an average of five years.

30 Related Party Transactions

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 11.

The aggregate remuneration of the Directors, and the other key management personnel of the Group, is set out below. Further information on the remuneration of individual Directors is found in Note 6.

	Group 2019 £'000	Group 2018 £'000
Short term employee benefits – Directors	892	802
Short term employee benefits – Other key management	311	358
Post-employment benefits – Directors	7	33
Post-employment benefits – Other key management	7	6
Share-based payments	46	33
Total	1,263	1,232

As part of a review of its management personnel the Group recognised a number of management personnel that it felt were important to retain within the business in order for it to achieve its strategic plan. Accordingly these were recognised as key personnel and are participants in the new Long Term Performance Plan (see Note 23(b)). They are included in the table above. For consistency the 2018 figures include their comparative figures.

Group Director shareholdings – Dividends Received

In respect of the total dividends paid during the year of £3,279,691, the Group Directors received the amounts set out in the table below:

Director's Dividend Income	Holding No.	Final 2018 7.67 Pence per Share £	Interim 2019 3.67 Pence per Share £	Total 2019 £	Total 2018 £
Executive:					
A Jacobs	5,204,600	399,193	191,009	590,202	536,144
RA Davies	64,037	4,827	2,339	7,166	6,389
N Newman-Shepherd	14,312	1,098	472	1,570	538
Non-Executive:					
SG Thomas	1,530,000	136,526	56,151	192,677	184,740
RJ Holmes	273,674	20,991	10,044	31,035	28,188
ETD Luker	28,800	2,209	1,057	3,266	1,421
CP Peal	539,653	39,109	19,805	58,914	52,897
	7,655,076	603,953	280,877	884,830	810,317

Although the Director holdings in Managed Stores falls outside of the definition of related party transactions they are disclosed here for transparency and are set out in the table below:

Director	Chichester No. of Shares	Broadstairs No. of Shares	Exeter No. of Shares
Andrew Jacobs	36,800	38,160	240,000
Charles Peal	–	–	500,000
Simon Thomas	–	–	160,000
Total shareholding	36,800	38,160	900,000
Issued Share Capital	189,341	189,690	3,970,000
% of Issued Share Capital	19.4%	20.1%	22.7%

31 Capital Commitments and Guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £5.56 million (2018: £3.38 million) relating to commitments to complete the purchase of two sites in Warrington and Stevenage respectively and on which contracts have been exchanged, building contracts on its Leicester development site as well as building retentions outstanding on the completed Gillingham, Wellingborough and Ipswich stores.

32 Bank Borrowings

The Company has guaranteed the bank borrowings of Lok'nStore Limited, a subsidiary company. As at the year-end, that company had gross bank borrowings of £43.0 million (2018: £37.3 million).

33 Events After the Reporting Date

On 18 October 2019, the Group completed the purchase of the Stevenage site.

Glossary

Abbreviation

APM	Alternative performance measures
Adjusted EBITDA	Earnings 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
Adjusted Store EBITDA	Adjusted EBITDA (see above) but before central and head office costs
AGM	Annual General Meeting
APD	Auditing Practices
Bps	Basis Points
CAC	Contributory asset charges
CAD	Cash available for Distribution
Capex	Capital Expenditure
CGU	Cash generating units
CO2 e	Carbon Dioxide Equivalents
CSOP	Company Share Option Plan
EBT	Employee Benefit Trust
(eKPIs)	Environmental key performance indicators
EMI	Enterprise Management Incentive Scheme
ESOP	Employee Share Option Plan
EU	European Union
GHG	Greenhouse gas
HMRC	Her Majesty's Revenue & Customs
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JLL	Jones Lang LaSalle
LIBOR	London Interbank Offered Rate
LFL	Like for like
LTPPP	Long Term Partnership Performance Plan
LTV	Loan to Value Ratio
MWh	Megawatt Hour
NAV	Net Asset Value
NBV	Net Book Value
Operating Profit	Earnings before interest and tax (EBIT)
PV	Photovoltaic
QCA	Quoted Companies Alliance
RICS	Royal Institution of Chartered Surveyors
SIP	Share Incentive Plan
SME	Small and medium sized enterprises
Sq. ft.	Square Feet
tCO2e	Tonnes of carbon dioxide equivalent
TVR	Total voting rights
VAT	Value Added Tax

Our Stores

Head Office
Lok'nStore plc
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE

Tel 01252 521010
www.loknstore.co.uk
www.loknstore.com

Central Enquiries

0800 587 3322
info@loknstore.co.uk
www.loknstore.co.uk

Owned Stores – Trading

Basingstoke, Hampshire
Crockford Lane
Chineham
Basingstoke
Hampshire
RG24 8NA

Tel 01256 474700
basingstoke@loknstore.co.uk

Bristol, Gloucestershire
Longwell Green Trade Park
Aldermoor Way
Bristol
Gloucestershire
BS30 7ET

Tel 0117 967 7055
bristol@loknstore.co.uk

Cardiff, Wales
234 Penarth Road
Cardiff
Wales
CF11 8LR

Tel 0292 0221901
cardiff@loknstore.co.uk

Eastbourne, East Sussex
Unit 4 Hawthorn Road
Eastbourne
East Sussex
BN23 6QA

Tel 01323 749222
eastbourne@loknstore.co.uk

Fareham, Hampshire
26 + 27 Standard Way
Fareham Industrial Park
Fareham
Hampshire
PO16 8XJ

Tel 01329 283300
fareham@loknstore.co.uk

Farnborough, Hampshire
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE

Tel 01252 511112
farnborough@loknstore.co.uk

Gillingham, Kent
Courtney Road
Gillingham
Kent
ME8 0RT

Tel 01634 366044
gillingham@loknstore.co.uk

Harlow, Essex
Edinburgh Way
Temple Fields
Harlow
Essex
CM20 2GF

Tel 01279 882366
harlow@loknstore.co.uk

Hedge End, Southampton
Units 2 & 3
Waterloo Industrial Estate
Flanders Road
Hedge End
Southampton
SO30 2QT

Tel 01489 787005
hedgeend@loknstore.co.uk

Horsham, West Sussex
Blatchford Road
Redkiln Estate
Horsham
West Sussex
RH13 5QR

Tel 01403 272001
horsham@loknstore.co.uk

Ipswich, Suffolk
Crane Boulevard
Ipswich
Suffolk
IP3 9SQ

Tel 01473 794940
ipswich@loknstore.co.uk

Luton, Bedfordshire
27 Brunswick Street
Luton
Bedfordshire
LU2 0HG

Tel 01582 721177
luton@loknstore.co.uk

Maidenhead, Berkshire
Stafferton Way
Maidenhead
Berkshire
SL6 1AY

Tel 01628 878870
maidenhead@loknstore.co.uk

Milton Keynes, Buckinghamshire
Etheridge Avenue
Brinklow
Milton Keynes
Buckinghamshire
MK10 0BB

Tel 01908 281900
miltonkeynes@loknstore.co.uk

Northampton Central, Northamptonshire
16 Quorn Way
Grafton Street Industrial Estate
Northampton
Northamptonshire
NN1 2PN

Tel 01604 629928
nncentral@loknstore.co.uk

Northampton Riverside, Northamptonshire
Units 1–4, Carousel Way
Northampton
Northamptonshire
NN3 9HG

Tel 01604 785522
northampton@loknstore.co.uk

Our Stores continued

Poole, Dorset
50 Willis Way
Fleetsbridge
Poole
Dorset
BH15 3SY

Tel 01202 666160
poole@loknstore.co.uk

Portsmouth, Hampshire
Rudmore Square
Portsmouth
Hampshire
PO2 8RT

Tel 02392 876783
portsmouth@loknstore.co.uk

Reading, Berkshire
251 A33 Relief Road
Reading
Berkshire
RG2 0RR

Tel 01189 588999
reading@loknstore.co.uk

Southampton, Hampshire
Third Avenue
Southampton
Hampshire
SO15 0JX

Tel 02380 783388
southampton@loknstore.co.uk

Sunbury, Middlesex
Unit C, The Sunbury Centre
Hanworth Road
Sunbury on Thames
Middlesex
TW16 5DA

Tel 01932 761100
sunbury@loknstore.co.uk

Tonbridge, Kent
Unit 6 Deacon Trading Estate
Vale Road
Tonbridge
Kent
TN9 1SW

Tel 01732 771007
tonbridge@loknstore.co.uk

Wellingborough, Northamptonshire
19/21 Whitworth Way
Wellingborough
Northamptonshire
NN8 2EF

Tel 01634 366044
wellingborough@loknstore.co.uk

Owned Stores – Development Locations

Bedford, Bedfordshire
69 Cardington Road
Bedford
Bedfordshire
NK42 0BQ

Bournemouth, Dorset
Land at Wessex Field
Deansleigh Road
Bournemouth
Dorset
BH7 7DU

Cheshunt, Hertfordshire
Land lying on the South Side
of Halfhide Lane
Turnford
Hertfordshire

Leicester, Leicestershire
Part of land forming part of
Freemens Common Road
Leicester
Leicestershire
LE2 7SL

Stevenage, Hertfordshire
Part of Land at Plot 2000
Stevenage Business Park
Gunnels Wood Road
Stevenage
Hertfordshire
SG1 2BL

Wolverhampton, Staffordshire
Land at Pantheon Park
Wednesfield Way
Wolverhampton
Staffordshire
WV11 3DR

Managed Stores – Trading

Aldershot, Hampshire
251 Ash Road
Aldershot
Hampshire
GU12 4DD

Tel 0845 4856415
aldershot@loknstore.co.uk

Ashford, Kent
Wotton Road
Ashford
Kent
TN23 6LL

Tel 01233 645500
ashford@loknstore.co.uk

Broadstairs, Kent
Unit 2 Pyramid Business Park,
Poorhole Lane,
Broadstairs,
Kent
CT10 2PT

Tel 01843 863253
broadstairs@loknstore.co.uk

Chichester, West Sussex
17 Terminus Road
Chichester
West Sussex
PO19 8TX

Tel 01243 771840
chichester@loknstore.co.uk

Crawley, West Sussex
Sussex Manor Business Park
Gatwick Road
Crawley
West Sussex
RH10 9NH

Tel 01293 738530
crawley@loknstore.co.uk

Crayford, Kent
Block B
Optima Park
Crayford
Kent
DA1 4QX

Tel 01322 525292
crayford@loknstore.co.uk

Dover, Kent
Honeywood Parkway
Whitfield
Dover
CT16 3FJ

Tel 01304 827353
dover@loknstore.co.uk

Exeter, Devon
1 Matford Park Road
Exeter
Devon
EX2 8ED

Tel 01392 823989
exeter@loknstore.co.uk

Hemel Hempstead, Hertfordshire
47 Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 7DE

Tel 01442 240768
hemelhempstead@loknstore.co.uk

Swindon, Wiltshire
Kembrey Street
Elgin Industrial Estate
Swindon
Wiltshire
SN2 8UY

Tel 01793 421234
swindoneast@loknstore.co.uk

Woking, Surrey
Marlborough Road
Woking
Surrey
GU21 5JG

Tel 01483 378323
woking@loknstore.co.uk

Managed Stores – Under Development

Gloucester, Gloucestershire
Land at Triangle Park
Metz Way
Gloucester
Gloucestershire
GL4

Warrington, Cheshire
Land at Winwick Road
Warrington
Cheshire
WA2 7PF

Designed and produced by emperor
Visit us at emperor.works

LOK'n STORE

Self Storage

Head Office
Lok'nStore Group plc
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE

T. 01252 521010
www.loknstore.co.uk
www.loknstore.com