Lok'nStore Group

Final Results

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Lok'nStore Group PLC
20 October 2014

LOK'NSTORE GROUP PLC
("Lok'nStore" or "the Group")

Preliminary results
for the year ended 31 July 2014

Lok'nStore Group Plc, a leading company in the UK self-storage market announces results for the year ended 31 July 2014.

Group Financial Highlights

Revenue £13.91 million up 7.2% (2013: £12.97 million)
Adjusted EBITDA[1] £4.62 million up 11.6% (2013: £4.14 million)
Net debt £25.5 million (2013: £22.5 million)
Annual dividend 7 pence per share up 16.7% (2013: 6 pence per share)
Adjusted Net Asset Value per share[2] up 9.6% to £2.71 (2013: £2.48)

Operational Highlights

Self-storage:
Unit occupancy up 12.4%
Unit Pricing up 5.8%
Unit Occupancy up to 69.5% of current lettable area (2013: 64.5%)
Store EBITDA £6.06 million up 12.8% (2013: £5.38 million)
Store EBITDA margins up 2.6% to 50.7% (2013: 48.7%)
Ancillary sales up 15.5%

Document storage:
Revenue £1.84 million (2013 £1.84 million)
Year-end boxes stored up 10.1% Tapes stored up 16.2%

Property Highlights

Total property values up 14.3%
New and purpose built stores lettable space increasing from 39.6% to 58.0% of portfolio
New Maidenhead store opened in December 2013 – trading well
Sale of old Reading store for residential development for £2.9 million
Construction of new Reading store complete October 2014
Acquired a site in Bristol in December 2013 for new store
New Aldershot and Southampton stores due to open in 2015

Key Metrics

Loan to value ratio down to 28.2%[3] (2013: 28.5%)
Funds from Operations (FFO)[4] £3.97 million up 17.5% (2013: £3.4 million)
FFO per share of 16.1 pence per share up 14.4% (2013: 14.1 pence per share)

[1] Adjusted EBITDA is defined as profits before depreciation, amortisation, losses or profits on disposal, share-based payments, acquisition costs, non-recurring professional costs, finance income, finance costs and taxation

[2] Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores 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 are excluded from the number of shares.

[3] Calculation based on net debt of £25.5 million (2013: £22.5 million) and total property value of £90.5 million (2013: £79.2 million).

[4] Funds from Operations (FFO) calculated as EBITDA minus net finance cost on operating assets

Commenting on the Group's results, Andrew Jacobs CEO of Lok'nStore Group said,

"Trading has been strong and accelerated through the second half of our financial year. Our new store pipeline is changing the balance of our portfolio with new and purpose built stores increasing from 39.6% of the portfolio to 58.0% of our lettable space. The new flagship store in Maidenhead opened in December and is trading well and the new stores in Reading, Aldershot, Southampton and Bristol opening over the coming eighteen months will add further impetus to sales and earnings growth. These will all be purpose-built stores with our eye-catching modern design in highly prominent positions.
The strong growth of the business, and Lok'nStore's low level of debt means that this can be financed out of our existing bank facilities, while progressively increasing the dividend."

Press Enquiries

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Chairman's Review

Strong growth, robust capital structure, increased NAV, increased dividend and rapid new store opening programme

Lok'nStore Group has traded well over the last several years and this improved further from the end of calendar 2013 resulting in robust growth of sales and earnings for the financial year to July 2014. This strong trading has been and will continue to be reinforced by store improvements to our existing stores combined with our programme of new, modern, purpose-built store openings including the recent opening of our new Maidenhead store, the replacement stores in Reading and Southampton, and the new stores in Aldershot and Bristol. This will result in a substantial increase in the proportion of our stores lettable space which is new or purpose built from 39.6% up to 58.0%. Our trading area will increase by 12.5%.

The growth of sales, profit and asset values combined with innovative asset management has combined to achieve a reduction in the loan-to-value (LTV) ratio of borrowing to asset values from 28.5% to 28.2% and an increase in annual dividend by 16.7% despite capital expenditure rising from £0.6 million last year to £6.5 million this year, a remarkable achievement.

Two other key performance indicators (KPI's), Funds from Operations (FFO) per share and Net Asset Value per share (NAV) have moved smartly ahead. With the high barriers to entry caused by the strong demand for property in South-East England and the difficulties of the local planning process, Lok'nStore's growing portfolio of high quality self-storage assets is set to deliver solid and increasing returns to investors.

Trading positive

Revenue for the year was £13.91 million, up 7.2% year on year (2013: £12.97 million) driven by self-storage unit occupancy which is up 12.4% and prices achieved for rented self-storage units which are up 5.8%. This strong turnover growth led to an 11.6% increase in Group Adjusted EBITDA. With low debt and interest costs this translates into Funds from Operations (FFO) per share growing by 14.4%. Tight control over operating costs has pushed the Group's margins and profits to record levels.

With the interest rate payable on £20 million of our net debt fixed at 3.525% we are currently operating at a blended interest cost of 3.33% giving us a firm foundation on which to grow the business.

Properties and Net Asset Value

The year-end property valuation equates to a total value of properties held of £90.5 million (2013: £79.2 million) a 14.3% increase in value. (Note that these values are not fully reflected in the statement of financial position which states the operating leasehold stores at cost less accumulated depreciation).

Our new Maidenhead store opened in December 2013 and is trading well. We have almost completed the development of our new store in Reading, and the Aldershot store commenced development in July 2014. Next year we intend to develop the new Southampton and Bristol stores.

These new stores will add further momentum to the growth of sales and profits over the coming years demonstrating Lok'nStore's ability to create innovative solutions to drive the growth of the operating business within our current financial resources.

Dividend

It is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business. The interim dividend will represent approximately one-third of the total for the year and final dividend two-thirds. This year to reflect the strength of the business, and notwithstanding the one-off impairment charge, we are recommending a full year dividend of 7 pence per share reflecting the strong underlying performance of the business. This is up from 6 pence for the full year last year, an increase of 16.7% which translates into a final dividend of 5 pence per share following payment of an interim dividend of 2 pence per share in June 2014.

Resignation of Director

On 25 February 2014 Douglas Hampson, a non-executive director of Lok'nStore Group Plc, through his company Montecito Storage Investors LLC (Montecito) sold his entire holding of 4,033,909 ordinary shares in the Company. The shares were acquired by existing and new investors. Mr Charles Peal a non-executive director added 450,000 shares to his holding. Following the transaction Montecito and Mr Hampson no longer have an interest in the shares in the Company and Mr Hampson resigned from the Board. The Board thanks Mr Hampson for his valuable contribution during his tenure as a director.

Outlook

Lok'nStore is a robust business with a record of consistent profit growth and cash generation and has built a firm base for the coming years. Recent strong trading has been and will continue to be reinforced by our programme of new, modern, purpose-built store openings and upgrades. This will result in a substantial increase in the proportion of our stores which are new or purpose built combined with a significant increase in our trading space.

Given the strong growth of sales, profits and asset values combined with the benefits of innovative asset management we believe we can achieve this without significantly increasing the loan-to-value (LTV) ratio or borrowings while continuing to increase the dividend.

Our dedicated and dynamic executive management team have capitalised on the improved economy and are well placed to continue our growth over the coming years. With the high barriers to entry created by the strong demand for property in South-

East England and the difficulties of the local planning process, Lok'nStore's growing portfolio of high quality self-storage assets is set to deliver solid and increasing returns to investors.

Simon G Thomas
Chairman
17 October 2014

The Strategic Report

The Strategic Report is a new feature of the Lok'nStore Annual Report and its purpose is to inform members of the Group and help them assess how the Directors have performed. Its intention is to provide a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and its position at its year-end, consistent with the size and complexity of the business.

The Strategic Report covers the following areas of our business:-

- What we do, our Strategy and the way our business works
- The UK Self-Storage Market
- The Performance of our Stores
- An Operational and Marketing Review
- A Property Review
- A Financial Review
- Principal Risks and Uncertainties in operating our Business

Our Strategy and the way our business works

Introduction

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 Horsham, Sussex in February 1995 and have grown consistently over the last 18 years, currently operating 24 self-storage centres and two serviced document stores in Southern England. 2 replacement stores and another new store will open in the coming year. We have been listed on the AIM Market since June 2000 and the board still accounts for 33% of the ordinary shares of the Company.
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We offer self-storage serviced document storage and management services to third party store owners. Self-storage is available to both household and business customers at our highly branded Lok'nStore centres. Each centre is prominently located mainly in the affluent South-East of England in large towns and cities.

Our serviced document storage service offers businesses anything from secure storage of one media tape to full management of their business documentation with 24 hour retrieval. We excel in offering the best customer service at competitive prices for our customers.

Strategy

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

Demand for self-storage by both business and domestic customers is driven by a combination of specific need based on changing circumstances but also linked to local economic activity and prevailing consumer and business confidence. The strong performance of our business since 2008 despite a generally poor economy is testament to its underlying resilience and its ability to grow revenue and earnings in most economic environments. Since the pick-up in the economy we have seen acceleration in our performance and this shows through in our reported numbers.

Our stores are located in the more affluent South East. People and business are more space constrained in these relatively expensive areas. Barriers to entry in terms of competition for suitable sites and the difficulties in securing appropriate planning consents are also correspondingly higher.

The strengths of our business model are summarised in table form below:

The UK self-storage market

There remains significant opportunity in the UK self-storage market where there are an estimated 830 self-storage facilities providing approximately 30 million square feet of storage space. With a population of 62 million people in the UK this equates to 0.5 square feet per person, compared to 7.3 square feet per person in the USA (Self-Storage Association 2014 UK Annual Survey).

The sector remains in good health. The Deloitte 2014 Report for the Self-Storage Association says "there has been growth in the industry over the last 12 months both in terms of additional space and new facilities opening…… Interestingly none of ….the three largest operators opened any new facilities in 2013." Despite this the total storage space available grew by 4% in 2013. The Report estimates that total annual turnover for the UK self-storage industry in 2013 was £385 million from approximately 420 different operators, and they employed in excess of 2,000 staff (full time equivalent) in their self-storage facilities. As awareness of self-storage continues to grow more businesses and individuals will use self-storage in a market that is supply constrained with very few openings in the coming year.

Our Business Model

Attractive market dynamics	➢ UK self-storage penetration in key urban conurbations remains relatively low ➢ Very limited new supply coming onto the market - Lok'nStore is bucking the trend with significant growth in site development - Reading, Aldershot, Southampton and Bristol ➢ The specific property requirements of self-storage coupled with challenging local planning regimes create significant barriers to entry, especially in Southern England where Lok'nStore operates ➢ Resilient through economic downturns ➢ Sector is growing
Our competitive strength	➢ Recognised brand ➢ Newer stores are prominent on arterial or main roads, with extensive frontage and high visibility ➢ Strong internet marketing delivering:- - traffic from mobile phones and desktop computers - online booking and reservation; click and collect for retail boxes and packaging ➢ Excellent customer service, customer feedback programme with store level customer satisfaction surveys, mystery shopper programme and quality control procedures ➢ Store portfolio concentrated in the affluent South East ➢ Newer stores have larger average store capacity - economies of scale, higher operating margins ➢ Secure financing structure with strong balance sheet ➢ Strong and increasing store asset base ➢ Experienced and committed board and executive management team with clear strategic direction, operational skills and a proven and robust business model
Stable and rising income streams and strong credit risk model	➢ Over 7,800 customers ➢ Mix of business and domestic customers ➢ High profit margins ➢ Low bad debt expense (0.20% of revenue in the year) ➢ Strong credit risk model (security deposits; customers pay in advance; lien on goods) ➢ Limited local competition
Strong growth opportunities	➢ A focus on occupancy growth and; o Yield management as occupancy increases o Demand increasing o Site development out of strong operational cash flow and innovative financing solutions
Translation of the business model into high quality earnings	➢ The self-storage business is strongly cash generative with high profit margins on established stores and all customers paying on a rolling 28 day basis ➢ Low technology & product obsolescence, maintenance fully expensed through profit and loss ➢ Fit-out capital expenditure can be phased to align with rate of store fill-up ➢ Lok'nStore has a track record of strong and growing cash generation driving a progressive dividend policy

The objective of our strategy is to continue to increase EBITDA per share over the coming years. We believe there is the opportunity for significant further growth and we will continue to focus our efforts on five key areas:

- Filling existing stores and improving pricing
- Developing new stores on a self-funded basis
- Opportunistic site acquisitions
- Increasing the number of stores we manage for third parties
- Developing our document storage offering through organic growth

The Performance of our Stores

Sales, Earnings and Occupancy Up

Our self-storage occupancy rose strongly during the year up 12.4% and this was combined with price increases of 5.8%. During the year occupancy of the self-storage units increased 5.0% to 69.5% (2013: 64.5%) of current lettable area (CLA). Self-storage revenue for the year was £12.07 million up 8.4% (2013: £11.14 million).

With costs firmly under control this revenue growth translates into strong profit growth. We again managed to increase the overall adjusted EBITDA margin across all stores by 1% from 49.7% to 50.7%. The adjusted EBITDA margins of the freehold stores were 62.7% (2013: 61.2%) and the leasehold stores achieved margins of 36.6% (2013: 30.8%).

Total store EBITDA in the self-storage business, a key performance indicator of profitability and cash flow of the business, increased 12.8% to £6.06 million (2013: £5.38 million).

At the end of July 2014 33.3% of Lok'nStore's self-storage revenue was from business customers (2013: 36.6%) and 66.7% was from household customers, (2013: 63.4%). By number of customers 19.0% of our customers were business customers (2013: 20.8%) and 81.0% household customers (2013: 79.2%).

Demonstrating the increased activity of our customers enquiries were up 23.1% and move-ins were up 20.9% over the year.

Portfolio Analysis and Performance Breakdown	Number of stores	% of Valuation	% of Store EBITDA	Store EBITDA Margin (%)	% lettable space Lok Owned	Total % lettable space
As at 31 July 2014						
Freehold and long leasehold [2]	12	79.6	66.9	62.7	56.2	51.3
Operating Leaseholds [1]	9	16.1	33.1	36.6	43.8	40.0
Pipeline (Freehold) [2]	2	4.3	–	–	–	–
Managed Stores (trading)	3	–	–	–	–	8.7
Managed Stores (under development)	1	–	–	–	–	–
Total	**27**	**100**	**100**		**100**	**100**

1 The average unexpired term of the Group's operating leaseholds is approximately 13 years and 8 months as at 31 July 2014 (14 years and 8 months: 31 July 2013).

2 Total freeholds account for 83.9% of property values

Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales increased 15.5% over the year accounting for 11.4% of self-storage revenues (2013: 10.7%).

We continue to promote our insurance to new customers with the result that 93% of our new customers purchased our insurance over the year, and this has resulted in an increase in the percentage of our customers who are insured through Lok'nStore to 78% (2013: 75%).

Document storage business

In our document storage business revenue has been maintained and profits have fallen slightly. However we are pleased to report that our business' operating metrics are improving rapidly in response to the Company's more customer facing marketing stance. This investment has resulted in excellent customer feedback and puts us in a good position to win new business, with boxes stored increasing 10.1% and tapes stored up 16.2%. Although revenue and profit will take time to respond to this volume growth we are pleased to see this noticeable improvement. We believe this focus will create long term value for customers and shareholders as our customer base grows.

	31 July 2014	31 July 2013
	£	£
Document storage revenue	1.84 million	1.84 million
Document storage adjusted EBITDA	0.24 million	0.31 million

We have now consolidated our serviced document warehouse capacity closing one of the three storage sites which incurred a cost in the period of £25,361 but will benefit earnings in the future. Following this consolidation and the fit-out of new warehouse racking we have the capacity to double the number of boxes stored within our existing premises. As part of this strategy additions of £0.21 million were made in the current year to fixtures, fittings and equipment (2013: £0.4 million).

Acquisition of Remaining Saracen Shares

During the year the Company acquired the remaining 9.6% non-controlling interest in Saracen Datastore Limited under the terms set out in the original Share Purchase Agreement for nil consideration.

Security

The safety and security of our customers and their goods remains our highest priority. We invest in CCTV, intruder and fire alarm systems and the remote monitoring of our stores out of hours. Importantly all of our stores are manned during opening hours.

Operational and Marketing Review

Marketing
During the year our marketing focused on the internet which produces an ever-increasing proportion of our enquiries; 59% of our enquiries now come from the internet (2013: 57%).

Printed directories account for a decreasing proportion of business over recent years and are now at a de minimis level. For the year total internet enquiries were up 28.4% on last year and total enquiries were up 24.6 % across all stores. We will continue to manage our marketing budget with a strong focus on cost control and value for money.

Despite the inexorable rise of internet marketing, around 37% (2013: 37%) of our business still comes from passing traffic and signage, so the visibility of our stores remains very important to our marketing efforts. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the Lok'nStore brand. We continue to invest in new signage and lighting at our existing stores as well as creating striking designs for our new stores to promote and enhance their' visual prominence.

Our store personnel are closely involved with sales and marketing initiatives and work with the head office team to ensure our marketing expenditure remains targeted and effective.

Website
The internet has rapidly taken over as the main media channel for our advertising and Lok'nStore has adapted to accommodate this change. Our website at www.loknstore.co.uk is one of the most established self-storage websites in the UK, having been operational since 2001. The website was re-launched in February 2012 and has been extremely successful in driving online traffic. We continue to improve our work in search optimisation and are using social networks to reinforce our various messages.

The site has clear navigation making it easy for customers to find their way around. Customers visiting the site are encouraged to book online to take advantage of our online reservation system. We have a “state of the art” space estimator which is a key tool for customers booking online, enabling them to make an informed choice about the size of unit required.

This is a very dynamic area and we are committed to continued rapid development. New features this year include an online chat facility and a ‘click and collect’ box shop. We believe the internet provides a strong competitive advantage for the major operators such as Lok'nStore with large marketing budgets compared with those of the smaller operators. During the year we spent 2.5% of self storage revenue on marketing.

Stores Property Review

Strong cash flows and solid asset base create opportunities
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 decisions are always driven by the requirements of the trading business. Lok'nStore has both freehold and leasehold stores and manages 4 stores for on behalf of three different clients.

Acquisition of site for new store in Bristol
In January 2014 Lok'nStore acquired a site in Longwell Green, Bristol. The site of approximately 0.9 acres is in a busy retail park and has planning permission to build a 50,000 sq. feet self-storage centre in Lok'nStore's modern and distinctive design. The total cost of the store when built and fitted-out, will be around £4 million and will add to Lok'nStore's high-quality portfolio of purpose built self-storage centres in prominent trading locations. When open it will take Lok'nStore's total stores to 26 following the recent opening of the new Maidenhead store and the opening of the new Reading, Southampton and Aldershot stores in the coming year.

Sale of previous Reading store and opening new Reading store
In October 2013 Lok'nStore agreed the sale of its store in Reading for an initial consideration of £2.9 million. The consideration is a 7.4% premium to the 31 July 2013 valuation and will be paid in cash on completion when the store is vacated in autumn 2014. The transaction is not yet recognised as a disposal (but is an asset held for sale) in this period since the Group retains the economic interest in revenues and profits in the store while the store continues to trade until legal completion and also continues to retain the economic interest in the business and customers thereafter.

Lok'nStore also owns the adjacent site on which it has now substantially completed the building of a new store. The new store will have 48,000 square feet of self-storage space, a 20% increase. The highly prominent location is directly accessible from the busy main road which connects Reading town centre to the M4 motorway. The transaction allows the Group to construct its new store while continuing to operate its existing trading business during this period. The cost of constructing and fitting the new store will be funded from the combination of the sale proceeds and store earnings during the transition period demonstrating the Group's ability to expand its operating footprint out of existing financial resources. When the new building is complete the existing customers will be transferred to the new store.

New Maidenhead store opened
In December 2013 Lok'nStore opened a new state-of-the-art store in Maidenhead providing around 60,000 sq. ft. of self-storage space.

This is a long leasehold site (the lease term runs until April 2076) of 1.6 acres close to Maidenhead town centre and railway station and is very prominent to the retail park near the main road joining the town centre with the M4 motorway. The store which also provides space on the ground floor for a Lidl food store is of similar style and appearance to other recently opened Lok'nStore centres, with Lok'nStore's strong branding adding to the visual attractiveness of the site. This collaboration with Lidl will increase the visual prominence, brand recognition and footfall of the store which are key criteria for success. Maidenhead is an excellent location for Lok'nStore, an affluent town with little local competition.

The innovative financing of the scheme has required only a modest capital input from Lok'nStore and enables us to continue to expand the Group's operating footprint without stretching the balance sheet.

Management contract – Aldershot
In 2012 Lok'nStore signed an agreement to develop and manage a new self-storage centre in Aldershot, Hampshire. The store will be located in a prominent location on the main Aldershot roundabout above the A331 with significant levels of passing traffic, and is expected to commence trading in 2015.

The store will be managed for outside investors under the Lok'nStore brand. Lok'nStore will contribute approximately £2.5 million of development funds of the estimated £4.5 million total cost of development and will manage the building and operation of the store.

Lok'nStore will generate a return by charging a return on the development capital, and a management fee for the construction, operation and branding of the store. This project is consistent with Lok'nStore's strategy of expanding the operating footprint of the business while maintaining its strong balance sheet.

Impairment of site
The Group has no immediate plans to progress works at our site at Portsmouth North Harbour and may not ultimately develop the site as a purpose built self-storage centre. Accordingly, the carrying cost of the site has been written down by £1.6 million to a level which reflects its alternative use value.

Store portfolio
These projects are part of our strategy of actively managing our store operating portfolio to ensure we are maximising 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 site's development. Our most important consideration is always the trading potential of the store rather than the type of property tenure.

We currently have 24 stores trading. Of these 21 stores are owned with twelve freehold or long leasehold and nine leasehold and three further sites operating under individual management contracts. With Aldershot opening in 2015 this will increase the number of stores we operate to 25 and will capitalise on our efficient operating systems and growing internet marketing presence. These arrangements demonstrate Lok'nStore's ability to attract investment partners and create innovative ownership to drive the growth of the operating business.

At the year end the average length of the seven leases which were valued at July 2014 decreased by 12 months to 13 years and 8 months (2013: 14 years and 8 months). Eight out of nine of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The leasehold sites produced 33.1% of the store EBITDA in the year (2013: 31.7%).

Store property assets and Net Asset Value

Lok'nStore's freehold and operating leasehold stores have been independently valued by Cushman & Wakefield (C&W) at £79.1 million (NBV £30.1 million) as of 31 July 2014 (2013: £67.7 million: NBV £30.6 million). Property valuation is referred to further in the Financial Review section of the Strategic Report and is detailed in note 10b of the notes to the financial statements.

Adding our stores under development at cost, our total property valuation is £90.5 million (historic cost value £46.4 million) (2013: £79.2 million; historic cost value £42.6 million). This translates into an adjusted net asset value of £2.71 per share up 9.6% on last year (2013: £2.48 per share).

Financial Review

Trading
Total revenue for the year grew 7.2% to £13.91 million (2013: £12.97 million). Group operating profit for the year is up 20% to £3.08 million (2013: £2.57 million) after adding back the impairment of a development land asset charged to the Income Statement. Document storage revenue was £1.84 million (2013: £1.84 million). Document storage adjusted EBITDA, before inter-company management charges, was £0.24 million (2013: £0.31 million).

Taxation
Historically, there has been no corporation tax to pay due to the availability of tax losses. The Group's tax losses have now been utilised with de minimis tax losses available to carry forward for offset against future profits. The Group will therefore pay tax on the majority of its earnings this year and has made a tax provision in this year of £0.34 million.

Earnings per share
Earnings per share has been impacted by the £1.6 million impairment to a development land asset and the tax charge. Basic earnings per share before the one-off impairment charge were 7.39 pence (2013: 5.75 pence per share) and diluted earnings per share were 7.21 pence (2013: 5.72 pence per share). Underlying operating profit is 20% higher than last year. Basic earnings per share after impairment were 0.81 pence (2013: 5.75 pence per share). Diluted earnings per share were 0.79 pence (2013: 5.72 pence per share).

Treasury shares
Although the Group did not purchase any Treasury shares during the year we are proposing to renew our on-going authority to buy back shares at this year's AGM to ensure the Group continues to have flexibility to make further purchases should it be considered to be in the best interests of shareholders to do so.

Management of interest rate risk
Lok'nStore has £27.7 million of debt currently drawn against its £40 million revolving credit facility. £20 million is at a fixed interest rate with £10 million fixed rate swap at a fixed 1 month sterling LIBOR rate of 1.2% and £10 million swap at a fixed 1 month sterling LIBOR rate of 1.15%. With 1 month LIBOR around 0.5%, this leaves a balance of £7.7 million floating at a current all-in rate of around 2.83% and results in an overall weighted average rate of 3.33%. The £20 million fixed rate is treated as an effective cash flow hedge and its fair value on a mark-to-market basis has fluctuated historically. Its current fair value of £0.05 million is currently stated as a non-current asset (2013: £0.27 million liability). (See Note 15).

Operating costs
For the previous five years we have reduced our group operating costs year on year. This year through disciplined management we have again reduced property costs and contained overhead growth to 2.3%. Staff costs increased by 12.2% through a combination of strong sales bonuses and additional national insurance costs arising on the exercise of employee share options. Group operating costs amounted to £9.0 million for the year, a 5% increase from last year (2013: £8.57 million). Overall operating costs as a percentage of revenue have decreased and represent 64.7% as a cost ratio. (2013: 66.1%). This disciplined approach to costs ensures that as much as possible of the revenue growth achieved contributes to increasing our profits.

Group	Increase/ (Decrease) in costs %	**2014 £'000**	2013 £'000
Property costs	(1.2)	**3,689**	3,733
Staff costs	12.2	**3,971**	3,538
Overheads	2.3	**1,153**	1,128
Distribution costs	9.1	**189**	173
Total	5.0	**9,002**	8,572

Lok'nStore Limited[1]	Increase/ (Decrease) in costs %	**2014 £'000**	2013 £'000
Property costs	(1.0)	**3,196**	3,228
Staff costs	10.8	**3,298**	2,976
Overheads	6.2	**1,011**	952
Distribution costs	–	**–**	–
Total	4.9	**7,505**	7,156

[1] Includes expenses relating to Southern Engineering and Machinery Company a wholly owned subsidiary which owns the Southampton development site.

Saracen Datastore Limited	Increase/ (Decrease) in costs %	**2014 £'000**	2013 £'000

Property costs	(2.2)	**493**	504
Staff costs	19.9	**673**	562
Overheads	(19.0)	**142**	175
Distribution costs	9.1	**189**	173
Total	4.8	**1,497**	1,414

Cash flow and financing

At 31 July 2014 the Group had cash balances of £2.2 million (2013: £4.2 million). There was £27.7 million of gross borrowings (2013: £26.8 million) representing gearing of 56.5% (2013: 55.8%) on net debt of £25.5 million (2013: £22.5 million). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the statement of financial position, gearing is 45.4% (2013: 45.2%). After adjusting for the deferred tax liability carried at period end of £10.9 million gearing drops to 38.0% (2013: 37.8%).

Cash inflow from operating activities before investing and financing activities was £5.2 million (2013: £4.3 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the year-end amounted to £12.3 million (2013: £13.2 million).

By excluding £0.5 million (2013: £0.4 million) of the interest costs of carrying the development sites from the total net interest charge of £1.1 million (2013: £1.1 million) the interest on the operating portfolio is £0.6 million for the year (2013: £0.7 million). Funds from operations (FFO) represented by EBITDA minus interest on the operating portfolio is therefore £3.97 million (2013: £3.38 million) equating to 16.1 pence per share, up 14.4% on last year (2013: 14.1 pence per share).

A component of the interest cost incurred by the Group arises from the £11.4 million of development sites that the Group is currently carrying. The interest against this cost has not been capitalised but if it was the Group's adjusted profit would have been approximately £0.5 million higher for the year (2013: £0.4 million) on the assumption that the £11.4 million is fully funded by borrowings.

The Group has grown through a combination of new site acquisition, existing store improvements and relocations, and has concentrated on extracting value from its existing assets and developing through collaborative projects and management contracts. Capital expenditure during the year totalled £6.5 million (2013: £0.6 million). This was primarily the construction and fitting out at Maidenhead and Reading, the purchase of our new site in Bristol and also included small expenditures at existing stores and further racking at the Saracen Olney warehouse. It also included planning and other professional costs incurred in maximising the potential of our planning permissions.

The Company has no further capital commitments beyond the completion of its Reading store, its £2.5 million development commitment at Aldershot, further racking at the Saracen Olney warehouse and some minor works to existing properties. (Refer note 29a: Capital Commitments).

Statement of Financial Position

Net assets at the year-end were £45.2 million (2013: £40.4 million). Freehold property values at 31 July 2014 were £64.5 million (including Maidenhead) compared to £54.5 million at 31 July 2013.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

Our eleven freehold properties and one long leasehold are held in the statement of financial position at fair value and have been valued by Cushman and Wakefield LLP (C&W). Refer to note 10b) – 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 seven of these have also been externally valued and these valuations have been used to calculate the adjusted net asset value position of the Group.

On 31 July 2014 professional valuations were prepared by valuers C&W in respect of eleven freehold, one long leasehold and seven operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation - Professional Standards, published by The Royal Institute of Chartered Surveyors ("the Red Book"). The valuation has been provided for accounts purposes and, as such, is a Regulated Purpose Valuation as defined in the Red Book. The external valuation methodology provides for a purchaser acquiring a centre incurring purchase costs of 5.8% initially and sale plus purchaser's costs totalling 7.8% are assumed on the notional sales in the tenth year in relation to the freehold stores. In practice we believe that it is unlikely that the bulk of Lok'nStore's properties would be acquired other than in a corporate structure, in which case transaction costs would likely be lower (see note 10b in the notes to the financial statements for a more detailed description of the valuation methodology).

A deferred tax liability arises on the revaluation of the properties and on the rolled-over gain arising from the disposal of the Kingston and Woking sites in 2007. 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 highly probable that the site of the existing Reading store will be sold with the benefit of its permission for residential development and the proceeds will be reinvested in our new store pipeline. It is not the intention of the Directors to make any other significant disposals of operational self-storage centres, although individual disposals may be considered where it is clear that added value can be created by recycling the capital into other opportunities.

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

Under IFRS the valuations of our freehold property assets are included in the Statement of Financial Position at their fair value, but the IFRS rules do not permit the inclusion of any valuation in respect of our leasehold stores to the extent that they are classified as operating leases. The value of our operating leases in the valuation totals £14.6 million (2013: £13.2 million). Instead we have reported by way of a note the underlying value of these leasehold stores in future revaluations and adjusted our Net Asset Value (NAV) calculation accordingly to include their value. This will ensure comparable NAV calculations.

Analysis of Total Property Value

	No of stores/sites	**31 July 2014 Valuation £'000**	No of stores/sites	31 July 2013 Valuation £'000
Freehold & Long Leasehold valued by C & W	**12**[1]	**64,510**	11	54,460
Short Leasehold valued by C & W	**7**	**14,570**	7	13,200
Subtotal	**19**	**79,080**	18	67,660
Sites in development at cost	**4**	**11,409**	4	11,517
Total	**23**	**90,489**	22	79,177

Adjusted Net Asset Value per Share

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

At July 2014 the adjusted net asset value per share increased to £2.71 from £2.48 last year, up 9.6%. This increase is a result of higher property values, cash generated from operations, offset in part by an increase in the shares in issue due to the exercise of share options by management and staff during the year.

Analysis of net asset value (NAV)	**31 July 2014 £'000**	31 July 2013 £'000
Net assets	**45,210**	40,372
Adjustment to include operating/short leasehold stores at valuation		
Add: C & W leasehold valuation[1]	**14,570**	13,200
Deduct: leasehold properties and their fixtures and fittings at NBV	**(3,555)**	(3,696)
	56,225	49,876
Deferred tax arising on revaluation of leasehold properties[2]	**(2,203)**	(2,186)
Adjusted net assets	**54,022**	47,690
Shares in issue	**Number '000**	Number '000
Opening shares	**27,141**	26,759
Shares issued for the exercise of options	**668**	382
Closing shares in issue	**27,809**	27,141
Shares held in treasury	**(2,467)**	(2,467)
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**24,719**	24,051
Adjusted net asset value per share after deferred tax provision	**£2.18**	£1.98
Adjusted net asset value per share before deferred tax provision	**£2.71**	£2.48

[1] The seven leaseholds valued by Cushman & Wakefield are all within the terms of the Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the leasehold stores valued was 13 years and 8months at the date of the 2014 valuation (2013 valuation: 14 years and 8 months).

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

Summary

Lok'nStore is a robust business which generates increasing cash flow from its strong asset base. With a low LTV of 28.2% and our interest rate risks substantially hedged through to 2016 we have a firm base for growth. The value of the Group's property assets continue to increase underpinning a flexible business model with relatively low credit risk and tightly controlled operating costs.

Principal Risks and Uncertainties in operating our Business

Finance

Lok'nStore finances its current needs through a combination of strong operational cash flows and debt.

Cash deposits are placed with Lloyds TSB plc on a no-notice treasury deposit account which tracks base rate and currently yields 0.5% p.a. on all deposited balances. The Group's cash position is reviewed daily and cash is transferred daily between these accounts and the Group's operational current accounts as required.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. Historically, no trading in financial instruments had been undertaken but during 2012 the Group entered into two separate swap arrangements. Full details are set out in the Financial Review. Further information on our treasury arrangements is set out in note 15.

The financial risk management objectives and policies of the Group, along with details of exposure to liquidity and cash flow risk are set out below and in note 15 (Financial Instruments) to the financial statements.

Risk Management

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

Market Risk

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

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

We have a large customer base spread across 24 stores including those customers who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Our self-storage customers are a broad mix of both domestic and business, generating around 66.7% and 33.3% respectively of our revenue (2013: 63%:37%).

Property Risk

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

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

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

We manage the construction of our properties carefully. The building of each store is handled through a design and build contract with established contractors. We employ an external team of professionals to monitor the progress of each development. The fitting of mezzanine floors and steel units is generally project managed in-house using an established external professional team of sub-contractors who understand Lok'nStore's particular specifications.

Credit Risk

Lok'nStore's self-storage credit model is strong with customers paying four weekly in advance in addition to an initial four weeks rental deposit. We retain a legal lien over customers' goods which can be sold to cover their unpaid bills. Credit control remains tight with £34,692 (2013: 60,709) of bad debts recognised during the year representing around 0.20% of revenue (2013: 0.47%). There was £5,603 of additional costs associated with recovery (2013: £9,097). Given the tight credit conditions in the wider economy our own credit control indicators are resilient, showing no appreciable signs of weakening during the year with the number of late letters issued declining year-on-year and bad debts remaining at low levels.

Tax Risk

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

Corporate Social Responsibility and Employee Risk
The Corporate Social Responsibility and Employee Risk within the business are discussed within the Corporate Responsibility Report.

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

Approved by the Board of Directors and authorised for issue on 17 October 2014 and signed on its behalf by:

Andrew Jacobs	**Ray Davies**
Chief Executive Officer	Finance Director

Consolidated Statement of Comprehensive Income
For the year ended 31 July 2014

	Notes	2014 £'000	2013 £'000
Revenue	1a	**13,910**	12,974
Total property, staff, distribution and general costs	2a	**(9,294)**	(8,838)
Adjusted EBITDA[1]		**4,616**	4,136
Amortisation of intangible assets		**(165)**	(165)
Depreciation based on historic cost		**(965)**	(954)
Additional depreciation based on revalued assets		**(258)**	(250)
Loss on sale of motor vehicle		**(28)**	(18)
Equity settled share based payments		**(119)**	(94)
Loss on sale of property	2c	**–**	(86)
Impairment of development land asset	2c	**(1,604)**	–
		(3,139)	(1,567)
Operating profit*		**1,477**	2,569
Finance income	3	**26**	33
Finance cost	4	**(1,136)**	(1,175)
Profit before taxation	5	**367**	1,427
Income tax (expense) / credit	7	**(170)**	2
Profit for the year		**197**	1,429
Profit attributable to:			
Owners of the parent	24	**197**	1,421
Non-controlling interest		**–**	8
		197	1,429
Other Comprehensive Income			
Items that will not be reclassified to profit and loss			
Increase in property valuation		**6,281**	2,025
Deferred tax relating to change in property valuation		**(1,261)**	426
		5,020	2,451
Items that may be subsequently reclassified to profit and loss			
Increase in fair value of cash flow hedges		**322**	225
Deferred tax relating to cash flow hedges		**(72)**	(60)
		250	165
Other comprehensive income		**5,270**	2,616
Total comprehensive income for the year		**5,467**	4,045
Attributable to:			
Owners of the parent		**5,467**	4,037
Non-controlling interest		**–**	8
		5,467	4,045
Earnings per share			
Basic	9	**0.81p**	5.75p
Diluted	9	**0.79p**	5.72p

[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 2014

	Share capital £'000	Share premium £'000	Other reserves £'000	Revaluation reserve £'000	Retained earnings £'000	Attributable to owners of the parent £'000	Non controlling interest £'000	Total equity £'000
1 August 2012	**268**	**698**	**11,651**	**20,527**	**5,545**	**38,689**	**272**	**38,961**
Profit for the year	–	–	–	–	1,421	1,421	8	**1,429**
Other comprehensive income:								
Increase in property valuation	–	–	–	2,025	–	2,025	–	**2,025**
Deferred tax relating to increase in property valuation	–	–	–	426	–	426	–	**426**
Increase in fair value of cash flow hedges	–	–	225	–	–	225	–	**225**
Deferred tax relating to cash flow hedges	–	–	(60)	–	–	(60)	–	**(60)**
Total comprehensive income for the year	–	–	165	2,451	1,421	4,037	8	**4,045**
Transactions with owners:								
Purchase of own shares into treasury	–	–	–	–	(1,648)	(1,648)	–	**(1,648)**
Asset disposal	–	–	–	(1,120)	1,120	–	–	–
Dividend paid	–	–	(1,399)	–	–	(1,399)	–	**(1,399)**
Total transactions with owners	–	–	(1,399)	(1,120)	(528)	(3,047)	–	**(3,047)**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(193)	193	–	–	–
Equity settled share based payments	–	–	94	–	–	94	–	**94**
Exercise of share options	4	315	–	–	–	319	–	**319**
31 July 2013	**272**	**1,013**	**10,511**	**21,665**	**6,631**	**40,092**	**280**	**40,372**
Profit for the year	–	–	–	–	197	197	–	**197**
Other comprehensive income:								
Increase in property valuation	–	–	–	6,281	–	6,281	–	**6,281**
Deferred tax relating to increase in property valuation	–	–	–	(1,261)	–	(1,261)	–	**(1,261)**
Increase in fair value of cash flow hedges	–	–	322	–	–	322	–	**322**
Deferred tax relating to cash flow hedges	–	–	(72)	–	–	(72)	–	**(72)**
Total comprehensive income for the year	–	–	250	5,020	197	5,467	–	**5,467**
Transactions with owners:								
Dividend paid	–	–	(1,543)	–	–	(1,543)	–	**(1,543)**
Total transactions with owners	–	–	(1,543)	–	–	(1,543)	–	**(1,543)**
Transfer additional dep'n on revaluation net of deferred tax	–	–	–	(207)	207	–	–	–
Equity settled share based payments	–	–	119	–	–	119	–	**119**
IFRS2 transfer share options to which the equity relates have either been exercised or lapsed	–	–	(742)	–	742	–	–	–
Acquisition of non-controlling interests	–	–	–	–	280	280	(280)	–
Exercise of share options	7	788	–	–	–	795	–	**795**
31 July 2014	**279**	**1,801**	**8,595**	**26,478**	**8,057**	**45,210**	**–**	**45,210**

Company Statement of Changes in Equity
For the year ended 31 July 2014

	Share capital £'000	Share premium £'000	Retained deficit £'000	Other reserves £'000	Total £'000
1 August 2012	**268**	**698**	**(532)**	**5,738**	**6,172**
Loss for the year	–	–	(203)	–	**(203)**
Dividend paid	–	–	–	(1,399)	**(1,399)**
Equity settled share based payments	–	–	–	94	**94**
Exercise of share options	4	315	–	–	**319**
31 July 2013	**272**	**1,013**	**(735)**	**4,433**	**4,983**
Loss for the year	–	–	(174)	–	**(174)**
Dividend paid	–	–	–	(1,543)	**(1,543)**
Equity settled share based payments	–	–	–	119	**119**
IFRS2 transfer share options to which the equity relates have either been exercised or lapsed	–	–	742	(742)	–
Exercise of share options	7	788	–	–	**795**
31 July 2014	**279**	**1,801**	**(167)**	**2,267**	**4,180**

Statements of Financial Position
31 July 2014

Company Registration No. 04007169

	Notes	**Group 2014 £'000**	Group 2013 £'000	**Company 2014 £'000**	Company 2013 £'000
Assets					
Non-current assets					
Intangible assets	10a	**3,923**	4,088	**–**	–
Property, plant and equipment	10b	**77,679**	67,886	**–**	–
Property lease premiums	10c	**–**	2,800	**–**	–
Investments	11	**–**	–	**1,895**	1,776
Amounts due from subsidiary undertakings	28	**–**	–	**2,285**	3,207
Derivative financial instruments	16b	**51**	–	**–**	–
		81,653	74,774	**4,180**	4,983
Current assets					
Inventories	12	**131**	138	**–**	–
Trade and other receivables	13	**2,901**	2,417	**–**	–
Cash and cash equivalents	15	**2,178**	4,244	**–**	–
Total current assets (excluding non-current assets classified as held for sale		**5,210**	6,799	**–**	–
Non-current assets classified as held for sale	10d	**2,900**	–	**–**	–
Total assets		**89,763**	81,573	**4,180**	4,983
Liabilities					
Current liabilities					
Trade and other payables	14	**(5,900)**	(4,798)	**–**	–
Current tax liabilities	7	**(338)**	–	**–**	–
Borrowings	16a	**–**	(5)	**–**	–
		(6,238)	(4,803)	**–**	–
Non-current liabilities					
Borrowings	16a	**(27,445)**	(26,422)	**–**	–
Derivative financial instruments	16b	**–**	(271)	**–**	–
Deferred tax	17	**(10,870)**	(9,705)	**–**	–
		(38,315)	(36,398)	**–**	–
Total liabilities		**(44,553)**	(41,201)	**–**	–
Net assets		**45,210**	40,372	**4,180**	4,983
Equity					
Equity attributable to owners of the parent					
Called up share capital	18	**279**	272	**279**	272
Share premium		**1,801**	1,013	**1,801**	1,013
Other reserves	23	**8,595**	10,511	**2,267**	4,433
Retained earnings / (deficit)	24	**8,057**	6,631	**(167)**	(735)
Revaluation reserve		**26,478**	21,665	–	–
Total equity attributable to owners of the parent		**45,210**	40,092	**4,180**	4,983
Non-controlling interests		**–**	280	**–**	–
Total equity		**45,210**	40,372	**4,180**	4,983

Approved by the Board of Directors and authorised for issue on 17 October 2014 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 2014

	Notes	**2014 £'000**	2013 £'000
Operating activities			
Cash generated from operations	26a	**5,241**	4,286
Net cash from operating activities		**5,241**	4,286
Investing activities			
Purchase of property, plant and equipment		**(6,485)**	(603)
Purchase additions to property lease premiums		**–**	(1,171)
Proceeds from disposal of property, plant and equipment		**19**	4,459
Interest received		**26**	33
Net cash (used in)/from investing activities		**(6,440)**	2,718
Financing activities			
Purchase of shares for treasury		**–**	(1,648)
Proceeds from new borrowings		**919**	–
Repayment of borrowings		**(5)**	(2,922)
Finance costs paid		**(1,033)**	(1,071)
Equity dividends paid		**(1,543)**	(1,399)
Proceeds from issuance of ordinary shares (net)		**795**	319
Net cash used in financing activities		**(867)**	(6,721)
Net (decrease)/increase in cash and cash equivalents in the year		**(2,066)**	283
Cash and cash equivalents at beginning of the year		**4,244**	3,961
Cash and cash equivalents at end of the year		**2,178**	4,244

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 London Wall, London EC2Y 5AB, UK. Copies of this Annual Report and Accounts may be obtained from the Company's head office at 112 Hawley Lane, Farnborough, Hants, GU14 8JE, or the investor section of the Company's website at http://www.loknstore.co.uk

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 2013.

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

Adoption of new and revised standards
IFRS 13: Fair Value Measurement has been adopted in the year but has had no material impact in these financial statements.

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

Standards *Not Yet Endorsed*		**Effective date: Periods commencing on or after**
IFRS 9	Financial Instruments	1 Jan 18
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 Jan 16
IFRS11	Accounting for Acquisitions of Interests in Joint Operations	1 Jan 16
IFRS15	Revenue from Contracts with Customers	1 Jan 17
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 16
IAS 19	Employee Benefits – Amendment; Defined Benefit Plans: Employee Contributions	1 July 14
IAS 27	Equity Method in Separate Financial Statements	1 Jan 16

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

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

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

Critical accounting estimates and judgements
The preparation of consolidated 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 values its self-storage stores using a discounted cash flow methodology which is based on current and projected net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels; expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in note 10b. The carrying value of land and buildings held at valuation at the reporting date was £51.4 million (2013: £50.8 million) as shown in the table in note 10b.

In their report to us, our valuers Cushman & Wakefield LLP (C&W) have drawn attention to valuation uncertainty resulting from a lack of transactions in the self-storage investment market. Please see note 10b for more details.

The Board concur with this view.

b) Assets in the course of construction and land held for pipeline store development ('Development property assets')
The Group's development property assets are held in the statement of financial position at historic cost and are not valued externally. In acquiring sites for redevelopment into self-storage facilities, the Group estimates and makes judgements on the potential net lettable storage space that it can achieve in its planning negotiations, together with the time it will take to achieve maturity occupancy level. In addition, assumptions are made on the storage rent that can be achieved at the store by comparison with other stores within the portfolio and within the local area. These judgements, taken together with estimates of operating costs and the projected construction cost, allow the Group to calculate the potential net operating income at maturity, projected returns on capital invested and hence to support the purchase price of the site at acquisition. Following the acquisition, regular reviews are carried out taking into account the status of the planning negotiations, and revised construction costs or capacity of the new facility, for example, to make an assessment of the recoverable amount of the development property. The Group reviews all development property assets for impairment at each reporting date in the light of the results of these reviews. Once a store is opened, it is valued as a trading store.

The Group holds planning permissions on its entire pipeline of sites as a result of the work undertaken to complete the pre–planning and planning phases required. During this year it has been engaged with the four sites to examine whether the potential of the existing permissions could be further maximised. The movement in costs is as a result of this work.

The carrying value of development property assets at the reporting date was £11.4 million (2013: £11.5 million - £2.8 million of which was classified as property lease premiums). Please see note 10c for more details.

c) Estimate of fair value of intangible assets acquired in business combination
The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives important to the Group's financial position and performance. At 31 July 2014 intangible assets, excluding goodwill, amounted to £2.81 million (2013: £2.98 million).

The valuation method used and key assumptions are described in note 10a.

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

d) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Notes to the Financial Statements
For the year ended 31 July 2014

1a Revenue

Analysis of the Group's revenue is shown below:

Stores trading	**2014 £'000**	2013 £'000
Self-storage revenue	**10,510**	9,776
Other storage related revenue	**1,349**	1,168
Ancillary store rental revenue	**4**	4
Management fees	**128**	94
Sub-total	**11,991**	11,042
Stores under development		
Non-storage income	**79**	94
Sub-total	**12,070**	11,137
Serviced archive and records management revenue	**1,840**	1,837
Total revenue per statement of comprehensive income	**13,910**	12,974

1b Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board to allocate resources to the segments and to assess their performance.

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

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

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

The segment information for the year ended 31 July 2014 is as follows:

2014	**Self-storage 2014 £'000**	**Serviced archive and records management 2014 £'000**	**Total 2014 £'000**
Revenue from external customers	**12,070**	**1,840**	**13,910**
Adjusted EBITDA	4,378	238	**4,616**
Management charges	25	(25)	**–**
Segment Adjusted EBITDA	4,403	213	**4,616**
Depreciation	(1,127)	(96)	**(1,223)**
Amortisation of intangible assets	–	(165)	**(165)**
Loss on disposal – motor vehicles	(8)	(20)	**(28)**
Equity settled share based payments	(119)	–	**(119)**
Impairment of development land asset	(1,604)	–	**(1,604)**
Segment profit/(loss)	1,545	(68)	**1,477**
Central costs not allocated to segments:			
Finance income			**26**
Finance costs			**(1,136)**
Profit before taxation			**367**

Income tax expense	**(170)**
Consolidated profit for the financial year	**197**

2013	Self-storage 2013 £'000	Serviced archive and records management 2013 £'000	Total 2013 £'000
Revenue from external customers	**11,137**	**1,837**	**12,974**
Adjusted EBITDA	3,822	314	**4,136**
Management charges	100	(100)	–
Segment Adjusted EBITDA	3,922	214	**4,136**
Depreciation	(1,093)	(111)	**(1,204)**
Amortisation of intangible assets	–	(165)	**(165)**
Loss on disposal – motor vehicles	(9)	(9)	**(18)**
Equity settled share based payments	(94)	–	**(94)**
Loss on sale of property	(86)	-	**(86)**
Segment profit/(loss)	2,640	(71)	**2,569**
Central costs not allocated to segments:			
Finance income			**33**
Finance costs			**(1,175)**
Profit before taxation			**1,427**
Income tax credit			**2**
Consolidated profit for the financial year			**1,429**

Corporate transactions and the treasury function are managed centrally and therefore are not allocated to segments. Sales between segments are carried out at arm's length. The serviced archive segment with over 360 customers has a greater customer concentration with its ten largest corporate customers accounting for 31.4% (2013: 32.5%) of revenue its top 50 accounting for 59.3% (2013: 62.4%) and its top 100 accounting for 74.7% (2013: 77.6%) of revenue. The self-storage segment with over 7,750 customers has no individual self-storage customer accounting for more than 1% of total revenue and no group of entities under common control (e.g. Government) accounts for more than 10% of total revenues.

2014	Self-storage 2014 £'000	Serviced archive & records management 2014 £'000	Total 2014 £'000
Segment assets	83,803	5,960	**89,763**
Segment liabilities	(16,379)	(729)	**(17,108)**
Borrowings			**(27,445)**
Total liabilities			**(44,553)**
Capital expenditure[1]	6,269	215	**6,484**

[1] Capital expenditure includes fixed asset additions (note 10b).

2013	Self-storage 2013 £'000	Serviced archive & records management 2013 £'000	Total 2013 £'000
Segment and total assets	75,930	5,643	**81,573**
Segment liabilities	(13,578)	(925)	**(14,503)**
Borrowings			**(26,427)**
Derivative financial instruments			**(271)**
Total liabilities			**(41,201)**
Capital expenditure[1]	1,412	362	**1,774**

[1] Capital expenditure includes fixed asset additions (note 10b) and additions to property lease premiums (Note 10c)

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

2a Property, staff, distribution and general costs

	2014 £'000	2013 £'000
Property and premises costs	**3,689**	3,733
Staff costs	**3,971**	3,538
General overheads	**1,153**	1,128
Distribution costs	**189**	173
Retail products cost of sales (see note 2b)	**292**	266
	9,294	8,838

2b Cost of sales of retail products

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

	2014 £'000	2013 £'000
Retail	**149**	104
Insurance	**32**	27
Van hire	**6**	22
Other	**–**	5
	187	158
Serviced archive consumables and direct costs	**105**	108
	292	266

2c Other costs

	2014 £'000	2013 £'000
Loss on sale of Ashford store	**–**	86
Impairment of development land asset (see note 10b)	**1,604**	–
	1,604	86

3 Finance income

	2014 £'000	2013 £'000
Bank interest	**26**	33

All interest receivable arises on cash and cash equivalents (see note 15).

4 Finance costs

	2014 £'000	2013 £'000
Bank interest	**912**	962
Non-utilisation fees and amortisation of bank loan arrangement fees	**223**	207
Other interest	**1**	6
	1,136	1,175

5 Profit before taxation

	2014 £'000	2013 £'000

Profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
– owned assets	**1,224**	1,198
– assets held under finance leases and hire purchase	**–**	6
Amortisation of intangible assets	**165**	166
Operating lease rentals – land and buildings	**1,529**	1,619

Amounts payable to Baker Tilly UK Audit LLP and their associates for audit and non-audit services:

Audit services		
– UK statutory audit of the Company and consolidated accounts	43	46
Other services		
–the auditing of accounts of associates of the Company pursuant to legislation	17	12
Other services supplied pursuant to such legislation		
– interim review	8	9
Tax services		
– compliance services	48	36
– advisory services	16	24
Other services	–	2
	132	129

Comprising:		
Audit services	60	58
Non-audit services:	72	71
	132	129

6 Employees

	2014 **No.**	2013 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**107**	104
Administration	**30**	27
	137	131

	2014 **£'000**	2013 £'000
Costs for the above persons:		
Wages and salaries	**3,336**	3,074
Social security costs	**426**	301
Pension costs	**54**	50
	3,816	3,425
Share based remuneration (options)	**119**	94
	3,935	3,519

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £129,068 (2013: £110,262) 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 £3,913 (2013: £3,839) outstanding at the year-end.

Directors' remuneration

2014	**Emoluments** **£**	**Bonuses** **£**	**Benefits** **£**	**Sub total** **£**	**Gains on share options** **£**	**Total** **£**
Executive:						
A Jacobs	**200,000**	**34,000**	**3,328**	**237,328**	**–**	**237,328**

SG Thomas	**50,000**	**8,500**	**3,702**	**62,202**	**222,773**	**284,975**
RA Davies	**100,000**	**18,250**	**2,789**	**121,039**	**19,822**	**140,861**
CM Jacobs	**56,700**	**7,701**	**3,143**	**67,544**	**879**	**68,423**
Non-Executive:						
RJ Holmes	**20,000**	**–**	**–**	**20,000**	**13,286**	**33,286**
ETD Luker	**25,000**	**–**	**–**	**25,000**	**–**	**25,000**
CP Peal	**20,000**	**–**	**–**	**20,000**	**–**	**20,000**
D Hampson	**11,667**	**–**	**–**	**11,667**	**–**	**11,667**
	483,367	**68,451**	**12,962**	**564,780**	**256,760**	**821,540**

2013	**Emoluments £**	**Bonuses £**	**Benefits £**	**Sub total £**	**Gains on share options £**	**Total £**
Executive:						
A Jacobs	196,564	20,010	3,154	219,728	33,937	253,665
SG Thomas	49,141	4,378	3,036	56,555	33,937	90,492
RA Davies	100,000	6,000	2,380	108,380	54,685	163,065
CM Jacobs	56,700	3,000	2,563	62,263	6,643	68,906
Non-Executive:						
RJ Holmes	20,000	–	–	20,000	–	20,000
ETD Luker	25,000	–	–	25,000	–	25,000
CP Peal	20,000	–	–	20,000	–	20,000
D Hampson	12,205	–	–	12,205	–	12,205
	479,610	33,388	11,133	524,131	129,202	653,333

Pension contributions of £30,475 (2013: £30,047) were paid by the Group on behalf of RA Davies and are not included in the Directors' emoluments table above. The highest paid Director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the Directors.

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is one (2013: one).

7 Taxation

	2014 £'000	2013 £'000
Current tax:		
UK corporation tax at 22.4% (2013: 24%)	**338**	–
Deferred tax:		
Origination and reversal of temporary differences	**(311)**	402
Impact of change in tax rate on closing balance	**–**	(525)
Adjustments in respect of prior periods	**143**	121
Total deferred tax (credit)	**(168)**	(2)
Income tax expense / (credit) for the year	**170**	(2)

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

	2014 £'000	2013 £'000
Profit before tax	**368**	1,426
Tax on ordinary activities at the standard rate of corporation tax in the UK of 22.4% (2013: 24%)	**82**	342
Expenses not deductible for tax purposes	**3**	4
Depreciation of non-qualifying assets	**41**	35
Share based payment charges in excess of corresponding tax deduction	**26**	22
Impact of change in tax rate - deferred tax	**–**	(525)
Adjustments in respect of prior periods – deferred tax	**143**	121
Other	**–**	(1)
Impact of change in rate on timing differences	**7**	–
Sale of Reading recognised for tax purposes	**(132)**	–
Income tax expense / (credit) for the year	**170**	(2)
Effective tax rate	**46%**	–%

The UK's main rate of corporation tax has reduced to 21% from 1 April 2014. The applicable rate for this period is 22.4%.

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 £1,261,062 (2013: £426,019) and the movement in the fair value of cash flow hedges of £72,051 (2013: £59,827) has been recognised as a debit directly in other comprehensive income (see note 17 on deferred tax).

8 Dividends

	2014 £'000	2013 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 July 2012 (4.0 pence per share)	**–**	1,000
Interim dividend for the six months to 31 January 2013 (1.67 pence per share)	**–**	399
Final dividend for the year ended 31 July 2013 (4.33 pence per share)	**1,053**	–
Interim dividend for the six months to 31 January 2014 (2.00 pence per share)	**490**	–
	1,543	1,399

In respect of the current year the Directors propose that a final dividend of 5 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £1.24 million based on the number of shares currently in issue as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 20 November 2014; the record date 21 November 2014; with an intended payment date of 22 December 2014.

9 Earnings per share

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

	2014 £'000	2013 £'000
Profit for the financial year attributable to owners of the parent	**197**	1,421

	2014 No. of shares	2013 No. of shares
Weighted average number of shares		
For basic earnings per share	**24,392,144**	24,700,318
Dilutive effect of share options[1]	**589,427**	147,825
For diluted earnings per share	**24,981,571**	24,848,142

623,212 (2013: 623,212) shares held in the Employee Benefit Trust and 2,466,869 (2013: 2,466,869) Treasury shares are excluded from the above (see note 25).

[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 19 to 22.

	2014	2013
Earnings per share		
Basic	**0.81p**	5.75p
Diluted	**0.79p**	5.72p

10a Intangible assets

Group	Goodwill £'000	Contractual customer relationships £ '000	Total £'000
Cost at 1 August 2012	1,110	3,309	4,419
Amortisation at 1 August 2012	–	(166)	(166)
Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2013	1,110	(331)	(331)
Net book value at 31 July 2013	1,110	2,978	4,088
Cost at 1 August 2013	1,110	3,309	4,419
Amortisation at 1 August 2013	–	(331)	(331)

Amortisation charge	–	(165)	(165)
Amortisation at 31 July 2014	–	**(496)**	**(496)**
Net book value at 31 July 2014	**1,110**	**2,813**	**3,923**

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

The remaining amortisation period of the contractual customer relationships at 31 July 2014 is 16 years and 11 months (2013: 17 years 11 months).

The values for impairment purposes are based on estimated future cash flows and the following key assumptions:

- a discount rate of 11%
- estimated useful lives of customer relationships (20 years)
- long term sustainable growth rates of 2.75%
- a forward corporation tax rate of 20%
- sensitivity: the Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. A cut in projected sales growth by around 6% would result in the carrying value of goodwill being reduced to its recoverable amount.

10b 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 2012	**8,670**	**51,868**	**–**	**2,514**	**16,379**	**217**	**79,648**
Additions	46	67	–	30	450	10	603
Disposals	–	(2,700)	–	–	(681)	(82)	(3,463)
Revaluations	–	1,539	–	–	–	–	1,539
31 July 2013	**8,716**	**50,774**	**–**	**2,544**	**16,148**	**145**	**78,327**
Depreciation							
1 August 2012	–	–	–	**1,420**	**8,659**	**99**	**10,178**
Depreciation	–	486	–	89	611	18	1,204
Disposals	–	–	–	–	(415)	(40)	(455)
Revaluations		(486)	–	–	–	–	(486)
31 July 2013	–	–	**–**	**1,509**	**8,855**	**77**	**10,441**
Net book value at 31 July 2013	**8,716**	**50,774**	**–**	**1,035**	**7,293**	**68**	**67,886**
Cost or valuation							
1 August 2013	**8,716**	**50,774**	**–**	**2,544**	**16,148**	**145**	**78,327**
Additions	4,297	17	148	16	2,007	–	6,485
Transfer from lease premium (note 10c)	–	–	2,800	–	–	–	2,800
Non-current assets classified as held for sale	–	(2,900)	–	–	–	–	(2,900)
Disposals	–	–	–	–	–	(154)	(154)
Reclassification	–	–	(87)	–	87	–	–
Revaluations	–	3,521	2,260	–	–	–	5,781
31 July 2014	**13,013**	**51,412**	**5,121**	**2,560**	**18,242**	**(9)**	**90,339**
Depreciation							
1 August 2013	–	–	–	**1,509**	**8,855**	**77**	**10,441**
Depreciation	–	487	13	90	623	11	1,224
Impairment	1,604	–	–	–	–	–	1,604
Disposals	–	–	–	–	–	(109)	(109)
Revaluations		(487)	(13)	–	–	–	(500)
31 July 2014	**1,604**	**–**	**–**	**1,599**	**9,478**	**(21)**	**12,660**
Net book value at 31 July 2014	**11,409**	**51,412**	**5,121**	**961**	**8,764**	**12**	**77,679**

If all property, plant and equipment were stated at historic cost the carrying value would be £44.5 million (2013: £43.5 million).

Capital expenditure during the year totalled £6.5 million (2013: £0.6 million). This was primarily the build-outs at Maidenhead and Reading, the purchase of our new development site in Bristol and also included small limited expenditures at existing stores and further racking at the Saracen Olney store. It also included planning and other professional costs incurred in maximising the potential of our existing planning permissions.

Property, plant and equipment (non-current assets) with a carrying value of £77.7 million (2013: £70.7 million including Maidenhead held in property lease premium) are pledged as security for bank loans as well as £2.9 million of non-current assets held for sale (see note 16a).

The net book value of assets held under finance leases at 31 July 2014 was £nil (2013: £14,059).

Market Valuation of Freehold and Operating Leasehold Land and Buildings
On 31 July 2014, a professional valuation was prepared by valuers Cushman & Wakefield LLP (C&W) in respect of eleven freehold, one long leasehold and seven operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation - Professional Standards, published by the Royal Institute of Chartered Surveyors ("the Red Book"). The valuations were prepared on the basis of Fair Value or Fair Value as a fully equipped operational entity having regard to trading potential, as appropriate. The valuation was provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the Red Book C&W have confirmed that:

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

The valuation report indicates a total valuation for all properties valued of £79.1 million (2013: £67.7 million) of which £64.5 million (2013: £54.5 million) relates to freehold and long leasehold properties, and £14.6 million (2013: £13.2 million) relates to properties held under operating leases.

Freehold and long leasehold 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 £64.5 million valuation of the freehold properties £5.1 million (2013: £3.7 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £51.4 million (2013: £50.8 million) relates to freehold and long leasehold properties.

The 2014 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

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

Freehold and long leasehold property
The valuation is based on a discounted cash flow of the net operating income projected over a 10-year period and a notional sale of the asset at the end of the 10th year.

Assumptions
a. Net operating income is based on projected revenue received less projected operating costs together with a central administration charge representing 6% of the estimated annual revenue subject to a cap and a collar. The initial net operating income is calculated by estimating the net operating income in the first 12 months following the valuation date.
b. The net operating income in future years is calculated assuming straight-line absorption from day one actual occupancy to an estimated stabilised/mature occupancy level. In the valuation the assumed stabilised occupancy level for the 19 trading stores (both freeholds and leaseholds) averages 67.9% (2013: 67.72%). The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.
c. The capitalisation rates applied to existing and future net cash flows have been estimated by reference to underlying yields for industrial and retail warehouse property, yields for other trading property types such as hotels and student housing, bank base rates, 10-year money rates, inflation and the available evidence of transactions in the sector. On average for the 18 stores the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 8.11% (2013: 7.17%). This rises to 10.64% (2013: 11.10%) based on the projected cash flow for the first year following estimated stabilisation in respect of each property.
d. The future net cash flow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 12.0% (2013: 12.02%).
e. Purchaser's costs of 5.8% have been assumed initially and sale plus purchaser's costs totalling 7.8% are assumed on the notional sales in the 10th year in relation to the freehold stores.

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

Property held under Operating Leaseholds
The same methodology has been used as for freehold property, except that no sale of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 13 years and 8 months as at 31 July 2014 (14 years and 8 months: 31 July 2013). Valuations for stores held under operating leases are not reflected in the statement of financial position and the assets in relation to these stores are carried at cost less accumulated depreciation.

In 2011, one of the Group store's leases was renegotiated and includes a ten year option to renew the lease from March 2026 to March 2036. The option to extend is only operable in the event that all four of the leases applicable to this store are extended and this option is personal to Lok'nStore or another "major self-storage operator", to be approved by the landlord (approval not to be unreasonably withheld). The C&W valuation on this store is based on this special assumption that the option to extend the lease for 10 years is exercised. This is consistent with the approach taken in 2012 and 2013.

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

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

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

C&W have not assumed that the entire portfolio of properties owned by the entity would be sold as a single lot and the value for the whole portfolio in the context of a sale as a single lot may differ significantly (either higher or lower) from the aggregate of the individual values for each property in the portfolio.

10c Property lease premiums

The Maidenhead site was built out during the year and opened as a new trading store in December 2013. The long lease at Maidenhead was historically classified as a property lease non-current asset in the statement of financial position (2013: £2.8 million) due to a lease premium paid on entering the lease and other related costs. The lease runs until 31 March 2076. A peppercorn rent is payable until 2027 and a market ground rent thereafter. Following the opening of this store during the year the amounts being held under lease premium has been transferred to property plant and equipment in order to keep all costs associated with the store in one asset category particularly as this new Maidenhead store was valued for the first time by C&W in common with other trading stores.

Group	**2014 £'000**	2013 £'000
Balance at start of year	**2,800**	3,179
Additions during the year	**–**	1,171
Transfer to property plant and equipment	**(2,800)**	
Disposal during the year	**–**	(1,550)
Balance 31 July	**–**	2,800

10d Non-current assets held for sale

£2.9 million of the asset relating to the existing trading store at Reading has been presented as held for sale. This follows the agreement to sell the site for residential development for £2.9 million, with the sale now considered as highly probable. The completion date for the transaction is expected around 31 October 2014.

11 Investments

Company Investments in subsidiary undertakings	£'000
31 July 2012	**1,682**
Capital contributions arising from share-based payments	94
31 July 2013	**1,776**
Capital contributions arising from share-based payments	119
31 July 2014	**1,895**

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	Ordinary	100	–	Land
Semco Machine Tools Limited[2]	Ordinary	–	100	Dormant
Semco Engineering Limited[2]	Ordinary	–	100	Dormant
Saracen Datastore Limited[1]	Ordinary	–	100	Records Management &

Serviced Archive Services

[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.

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

12 Inventories

	Group 2014 £'000	Group 2013 £'000
Consumables and goods for resale	**131**	138

The amount of inventories recognised as an expense during the year was £208,587 (2013: £179,833).

13 Trade and other receivables

	Group 2014 £'000	Group 2013 £'000
Trade receivables	**1,542**	1,249
Other receivables	**666**	733
Prepayments and accrued income	**693**	435
	2,901	2,417

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

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

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

In respect of its serviced archive and records management business, customers are invoiced typically monthly in advance for the archive storage of their boxes, tapes and files. The provision of additional services, such as document box or tape collection and retrieval from archive, typically are invoiced monthly in arrears. The serviced archive segment with over 360 customers has a greater customer concentration with its ten largest corporate customers accounting for 31.4% (2013: 32.5%) of revenue its top 50 accounting for 59.3% (2013: 62.4%) and its top 100 accounting for 74.7% (2013: 77.6%) of revenue.

Included in the Group's trade receivables balance are receivables with a carrying amount of £235,470 (2013: £249,433) 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 39 days past due (2013: 39 days past due).

Ageing of past due but not impaired receivables

	Group 2014 £'000	Group 2013 £'000
0–30 days	**132**	136
30–60 days	**63**	204
60+ days	**40**	35
Total	**235**	375

Movement in the allowance for bad debts

	Group 2014 £'000	Group 2013 £'000
Balance at the beginning of the year	**149**	138

Impairment losses recognised	**34**	61
Amounts written off as uncollectible	**(20)**	(50)
Balance at the end of the year	**163**	149

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.

Ageing of impaired trade receivables

	Group 2014 £'000	Group 2013 £'000
0–30 days	**–**	–
30–60 days	**–**	–
60+ days	**163**	149
Total	**163**	149

14 Trade and other payables

	Group 2014 £'000	Group 2013 £'000
Trade payables	**2,031**	1,256
Taxation and social security costs	**149**	434
Other payables	**1,139**	912
Accruals and deferred income	**2,581**	2,196
	5,900	4,798

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

15 Financial instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in note 16a, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

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

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

Capital Management	**Group 2014 £'000**	Group 2013 £'000
Gross borrowings	**(27,701)**	(26,786)
Cash and cash equivalents	**2,178**	4,244
Net debt	**(25,523)**	(22,542)
Total equity	**45,210**	40,372
Net debt to equity ratio	**56.4%**	55.8%

The increase in the Group's gearing ratio arises through the combined effect of an increase in debt arising from the purchase of the Bristol site, and the store building programme financed from cash resources. Total equity was also impacted by the one-off impairment charge of £1.6 million. An increase in the C&W valuation of its freehold and long leasehold properties a reversal in the liability arising on the market to market 'fair value' of the two interest rate swaps executed last year and cash generated from operations mitigated the overall effect.

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. Last year the Group executed two separate interest rate swaps with Lloyds TSB plc. These have been maintained and are reported fully in the Financial Review.

B Debt management
Debt is defined as non-current and current borrowings, as detailed in note 16a. Equity includes all capital and reserves of the

Group. The Group is not subject to externally imposed capital requirements.

The Group borrows through a senior five year term revolving credit facility, arranged through Lloyds TSB Group plc secured on its existing store portfolio and other Group assets with a net book value of £89.8 million (2013: £81.6 million). Borrowings are arranged to ensure the Group fulfils its strategy of growth and development of its store portfolio and to maintain short-term liquidity. As at the reporting date the Group has a committed revolving credit facility of £40 million (2013: £40 million). This facility expires on 19 October 2016. Undrawn committed facilities at the year-end amounted to £12.3 million (2013: £13.2 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 16a. The Group has a number of revolving loans within its overall revolving credit facility and as such is exposed to interest rate risks at the time of renewal arising from any upward movement in the LIBOR rate. The Group continues its two cash flow hedging interest rate swap arrangements in order to reduce the risk of such upward movements in LIBOR rate. These instruments and the movement in their fair values are detailed in note 16b.

The following interest rates applied during the financial year:

a) London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds TSB plc margin based on a loan to value covenant test for the revolving advances amounting to £27.7 million (2013:£26.8 million).
b) 40% of the applicable margin in 1 above for non-utilisation (i.e. that part of the facility which remains undrawn from time to time). As at 31 July 2014 the prevailing non-utilisation charge is calculated at a rate of 0.94%.
c) Rates prevailing on the Group's Interest rate swaps. See note 16b.

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to a treasury deposit account which earns interest at the prevailing money market rates*. All amounts are denominated in Sterling. The balances at 31 July 2014 are as follows:

	Group 2014 £'000	Group 2013 £'000
Variable rate treasury deposits[1]	**1,927**	4,171
SIP trustee deposits	**56**	51
Cash/(overdraft) in operating current accounts	**113**	(74)
Other cash and cash equivalents	**82**	96
Total cash and cash equivalents	**2,178**	4,244

[1] Money market rates for the Group's variable rate treasury deposit track Lloyds TSB plc base rate. The rate attributable to the variable rate deposits at 31 July 2014 was 0.5%.

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

D Interest rate sensitivity analysis

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

At 31 July 2014, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £77,005 (2013: £67,816) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £77,005 (2013: £67,816). 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 2.84% applying to the variable rate borrowings of £7.7 million in the year (2013: £6.8 million / 2.86%).

E Cash management and liquidity

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

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

F Foreign currency management

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

G Credit risk
The credit risk management policies of the Group with respect to trade receivables are discussed in note 13. The Group's self-storage business has no significant concentration of credit risk, with exposure spread across over 7,750 customers in our stores and no individual customer accounts for more than 1% of revenue. The serviced archive business with over 360 customers has a greater concentration of credit risk with its ten largest corporate customers accounting for 31.4% of revenue and its top 50 delivering 59.3% of revenue and its top 100 delivering 74.7% of revenue.

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

The Group's maximum exposure to credit risk at 31 July 2014 was £1,711,258 (2013: £1,430,879) on receivables and £2,177,630 (2013: £4,243,522) on cash and cash equivalents.

H Maturity analysis of financial liabilities
The undiscounted contractual cash flow maturities are as follows:

2014 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	**–**	**27,701**	**205**
From one to two years	**–**	**–**	**924**
Due after more than one year	**–**	**–**	**1,129**
Due within one year	**3,656**	**–**	**923**
Total contractual undiscounted cash flows	**3,656**	**27,701**	**2,052**

2013 – Group

	Trade and other payables £'000	Borrowings £'000	Interest on borrowings £'000
From two to five years	**–**	**26,781**	**1,997**
From one to two years	**–**	**–**	**898**
Due after more than one year	**–**	**–**	**2,895**
Due within one year	**3,038**	**5**	**900**
Total contractual undiscounted cash flows	**3,038**	**26,786**	**3,795**

I Fair values of financial instruments

	2014 £'000	2013 £'000
Categories of financial assets and financial liabilities		
Financial assets		
Trade and other receivables	**1,711**	1,431
Cash and cash equivalents	**2,178**	4,244
Derivative financial instruments	**51**	–
Financial liabilities		
Trade and other payables	**(3,656)**	(3,038)
Bank loans	**(27,445)**	(26,422)
Finance lease payables	**–**	(5)

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 £2.3 million (2013: £3.2 million) which are classified as loans and receivables, and the investment in its subsidiary undertaking of £0.2 million (excluding capital contributions). 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.

16a Borrowings

	Group 2014 £'000	Group 2013 £'000

Non-current		
Bank loans repayable in more than two years but not more than five years		
Gross	**27,701**	**26,781**
Deferred financing costs	**(256)**	**(359)**
Net bank borrowings	**27,445**	**26,422**
Non-current borrowings	**27,445**	**26,422**

Current		
Finance lease liabilities	**–**	**5**
Current borrowings	**–**	**5**
Total borrowings	**27,445**	**26,427**

The £40 million revolving credit facility with Lloyds TSB plc is secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £85.8 million together with cross-company guarantees from Group companies. The revolving credit facility is for a five-year term and expires on 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds TSB plc margin based on a loan to value covenant test while the interest cover and loan to value covenants are broadly in line with the previous facility.

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

	Group 2014 £'000	Group 2013 £'000
Gross finance liabilities – minimum lease payments		
Within one year	**–**	6
	–	6
Future finance charges on finance leases	**–**	(1)
	–	5

The present value of finance lease liabilities is as follows:

	Group 2014 £'000	Group 2013 £'000
Gross finance liabilities – minimum lease payments		
Within one year	**–**	5
	–	5

16b Derivative financial instruments

The Group continues to operate two separate £10 million interest rate swaps as a cash flow hedge with Lloyds TSB Bank plc both effective from 31 May 2012, the first at a fixed 1 month sterling LIBOR rate of 1.2% and the second at a fixed one-month sterling LIBOR rate of 1.15%. Both swaps run up to the expiration of the current banking facility in October 2016. The balance of the drawn facility of £7.7 million (2013: £6.8 million) remains at a floating rate.

		Currency	**Principal £'000**	**Maturity date**	**Fair value 2014 £'000**	**Fair value 2013 £'000**
3032816LS	Interest rate swap	GBP	10,000	20/10/2016	20	(143)
3047549LS	Interest rate swap	GBP	10,000	20/10/2016	31	(128)
			20,000		**51**	**(271)**

The movement in fair value of the interest rate swaps of £321,654 (2013: £224,752) has been recognised in other comprehensive income in the year.

17 Deferred tax

	Group 2014 £'000	Group 2013 £'000
Deferred tax liability		

Liability at start of year	**9,705**	10,073
Credited to income for the year	**(168)**	(2)
Tax credited/(debited) directly to other comprehensive income	**1,333**	(366)
Liability at end of year	**10,870**	9,705

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

	Accelerated Capital Allowances £	Tax losses £	Intangible assets £	Other temporary differences £	Revaluation of properties £	Rolled over gain on disposal £	Total £
At 1 August 2012	**1,434**	**(232)**	**723**	**(92)**	**6,147**	**2,093**	**10,073**
Charge/ (credit) to income for the year	(359)	226	(127)	(3)	521	(260)	(2)
Charge to other comprehensive income	–	–	–	60	(426)	–	(366)
At 31 July 2013	**1,075**	**(6)**	**596**	**(35)**	**6,242**	**1,833**	**9,705**
Charge/ (credit) to income for the year	366	6	(33)	(8)	(495)	(4)	(168)
Charge to other comprehensive income	–	–	–	72	1,261	–	1,333
At 31 July 2014	**1,441**	**–**	**563**	**29**	**7,008**	**1,829**	**10,870**

All of the Group’s tax losses have now been utilised with no tax losses available to carry forward for offset against future profits. The Group will therefore pay tax on the majority of its earnings this year.

A potential deferred tax asset of £161,000 (2013: £65,000) arises in respect of the share options in existence at 31 July 2014 but has not been recognised in the accounts. No deferred tax asset arises in relation to the remainder of the share options as at 31 July 2014 as the share price at the year-end is below the exercise price of the options.

The UK’s main rate of corporation tax reduced to 21% from 1 April 2014 with a further reduction to 20% from 1 April 2015. Due to the difficulty of predicting the amount of capital expenditure over this period, it is not possible to accurately quantify the effect of the rate change on the deferred tax position over this period.

18 Share capital

Authorised:	**2014 £’000**	2013 £’000
35,000,000 ordinary shares of 1 pence each (2013: 35,000,000)	**350**	350

Allotted, issued and fully paid ordinary shares	**£’000**	£’000
Balance 1 August	**272**	268
Options exercised 667,915 shares (2013: 382,328 shares)	**7**	4
Balance 31 July	**279**	272

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at 31 July	**27,809,108**	27,141,193

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

19 Equity settled share-based payment plans

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

The Company has the following share options:

2014 Summary	As At 31 July 2013	Lapsed/	**As at 31 July 2014**

	No of options	Granted	Exercised	surrendered	**No of options**
Enterprise Management Initiative Scheme	**163,368**	–	(121,954)	–	**41,414**
Unapproved Share Options	**2,156,583**	587,939	(468,411)	–	**2,276,111**
Approved CSOP Share Options	**233,775**	93,061	(77,550)	(3,000)	**246,286**
Total	**2,553,726**	681,000	(667,915)	(3,000)	**2,563,811**

2013 Summary	As At 31 July 2012 No of options	Granted	Exercised	Lapsed/ surrendered	**As at 31 July 2013 No of options**
Enterprise Management Initiative Scheme	349,166	–	(185,798)	–	**163,368**
Unapproved Share Options	2,442,175	408	(135,000)	(151,000)	**2,156,583**
Approved CSOP Share Options	283,713	23,592	(61,530)	(12,000)	**233,775**
Total	3,075,054	24,000	(382,328)	(163,000)	**2,553,726**

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

				At 31 July 2014			
	As at 31 July 2013	**Options granted**	**Options exercised**	**EMI Scheme**	**Unapproved Scheme**	**Approved CSOP share options**	**Total at 31 July 2014**
2014							
Executive Directors							
A Jacobs - Unapproved	**450,000**	**130,000**	**–**	**–**	**580,000**	**–**	**580,000**
SG Thomas - Unapproved	**450,000**	**70,000**	**(300,000)**	**–**	**220,000**	–	**220,000**
RA Davies - Unapproved	513,431	85,507	(16,961)	–	581,977	–	581,977
RA Davies - CSOP	–	14,493	–	–	–	14,493	14,493
RA Davies total	**513,431**	**100,000**	**(16,961)**	–	**581,977**	**14,493**	**596,470**
CM Jacobs - EMI	31,414	–	–	31,414	–	–	31,414
CM Jacobs - Unapproved	216,082	45,668	(2,241)	–	259,509	–	259,509
CM Jacobs - CSOP	24,745	4,332	–	–	–	29,077	29,077
CM Jacobs total	**272,241**	**50,000**	**(2,241)**	**31,414**	**259,509**	**29,077**	**320,000**
Non-Executive Directors							
RJ Holmes - Unapproved	10,000	–	(10,000)	–	–	–	–
ETD Luker - Unapproved	15,000	–	–	–	15,000	–	15,000
C P Peal - Unapproved	10,000	–	–	–	10,000	–	10,000
Non-Executive total	**35,000**	**–**	**(10,000)**	**–**	**25,000**	**–**	**25,000**
All Directors total	**1,720,672**	**350,000**	**(329,202)**	**31,414**	**1,666,486**	**43,570**	**1,741,470**

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. No options have been granted under the EMI approved scheme in the year (2013: nil).

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

The expected volatility is based on a historical review of share price movements over a period of time, prior to the date of grant, commensurate with the expected term of each award. The expected term is assumed to be six years which is part way between vesting (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 years).

The total charge for the year relating to employer share-based payment schemes was £118,586 (2013: £94,256), all of which relates to equity-settled share-based payment transactions.

20 Enterprise Management Initiative Scheme

The Company operates a share option scheme under the Enterprise Management Initiative ('EMI'), the vesting conditions of which have been met.

Movements in the year are shown in the table below.

	Options 2014 number	Weighted average exercise price 2014 pence	Options 2013 number	Weighted average exercise price 2013 pence
Outstanding at 1 August	163,368	144.00	349,166	121.23
Exercised during the year	(121,954)	140.55	(185,798)	102.00
Outstanding at 31 July	41,414	152.97	163,368	144.00
Exercisable at 31 July	41,414	152.97	163,368	144.00

The share price at the year-end was 207.0 pence per share. The share price ranged from 143.36 pence per share to 217.95 pence per share during the year. The exercise prices for shares exercisable at 31 July 2014 ranged from 152.00 pence per share to 156.00 pence per share. The options outstanding at 31 July 2014 had a weighted average contractual life of 1.2 years (2013: 2.0 years).

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

	As at 31 July 2013	Granted	Surrendered	Exercised	As at 31 July 2014	Exercise price (pence)	Date from which exercisable	Expiry date
CM Jacobs	31,414	–	–	–	31,414	152	30/07/08	30/07/15
	31,414	**–**	**–**	**–**	**31,414**			

21 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 2014 number	Weighted average exercise price 2014 pence	Options 2013 number	Weighted average exercise price 2013 pence
Outstanding at 1 August	2,156,583	133.00	2,442,175	124.19
Granted during the year	587,939	168.96	408	136.00
Forfeited during the year	–	–	(151,000)	73.00
Exercised during the year	(468,411)	118.73	(135,000)	58.00
Outstanding at 31 July	2,276,111	144.68	2,156,583	133.00
Exercisable at 31 July	1,409,975	141.69	1,637,869	140.00

The options outstanding at 31 July 2014 had a weighted average remaining contractual life of 5.5 years (2013: 4.7 years). The exercise prices for shares exercisable at 31 July 2014 ranged from 56.5 pence per share to 269.5 pence per share.

The inputs into the Black-Scholes model used to value the options issued 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 2014	6	207.00	207.00	39.17	3.06	2.15	61.83
31 Jan 2014	6	136.00	136.00	40.25	3.02	1.89	78.76

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

	As at 31 July 2013	Granted	Exercised /lapsed	**As at 31 July 2014**	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	450,000	130,000	–	580,000	56.5 - 213.5	20/01/07 – 31/07/17	20/01/15 – 31/07/24
	450,000				56.5 - 213.5	31/07/10 –	31/07/17 –

S Thomas		70,000	(300,000)	220,000		31/07/17	31/07/24
R Davies	513,431	85,507	(16,961)	581,977	56.5 - 213.5	30/07/07 – 31/07/17	30/07/15 – 31/07/24
C Jacobs	216,082	45,668	(2,241)	259,509	56.5 - 269.5	16/05/08 – 31/07/17	16/05/15 – 31/07/24
ETD Luker	15,000	–	–	15,000	56.5	31/07/12	31/07/19
R Holmes	10,000	–	(10,000)	–	–	–	–
C Peal	10,000	–	–	10,000	56.5	31/07/12	31/07/19
Total	**1,664,513**	**331,175**	**(329,202)**	**1,666,486**			

22 CSOP Approved Share Options

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

Movements in the year are shown below:

	Options 2014 number	Weighted average exercise price 2014 pence	Options 2013 number	Weighted average exercise price 2013 pence
Outstanding at 1 August	233,775	107.00	283,713	94.17
Granted during the year	93,061	207.00	23,592	136.00
Forfeited during the year	(3,000)	117.17	(12,000)	108.00
Exercised during the year	(77,550)	86.79	(61,530)	85.00
Outstanding at 31 July	246,286	144.48	233,775	107.00
Exercisable at 31 July	86,422	97.77	107,489	85.00

The options outstanding at 31 July 2014 had a weighted average remaining contractual life of 8.4 years (2013: 7.9 years). The exercise prices for shares exercisable at 31 July 2014 ranged from 85.0 pence per share to 207 pence per share.

The inputs into the Black-Scholes model used to value the options issued 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 2014	6	207.00	207.00	39.2	3.1	2.15	61.83

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

	As at 31 July 2013	Granted	Exercised /lapsed	**As at 31 July 2014**	Exercise price (pence)	Date from which exercisable	Expiry Date
R Davies	–	14,493	–	**14,493**	207.0	31/07/14	31/07/24
C Jacobs	**24,745**	4,332	–	**29,077**	85.0 - 207.0	31/07/13 - 31/07/17	31/07/20 - 31/07/24
	24,745	18,825	–	**43,570**			

23a Other reserves

Group	Cash flow hedge reserve £'000	Merger reserve £'000	Other reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2012	**(382)**	**6,295**	**4,236**	**34**	**1,468**	**11,651**

Share based remuneration (options)	–	–	–	–	94	94
Cash flow hedge reserve net of tax	165	–	–	–	–	165
Dividend paid	–	–	(1,399)	–	–	(1,399)
31 July 2013	**(217)**	**6,295**	**2,837**	**34**	**1,562**	**10,511**
Share based remuneration (options)	–	–	–	–	119	119
IFRS2 transfer to retained earnings	–	–	–	–	(742)	(742)
Cash flow hedge reserve net of tax	250	–	–	–	–	250
Dividend paid	–	–	(1,543)	–	–	(1,543)
31 July 2014	**33**	**6,295**	**1,294**	**34**	**939**	**8,595**

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 IFRS2 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 £741,806.

23b Other reserves

Company	Other reserve £'000	Share-based payment reserve £'000	Total £'000
1 August 2012	**4,056**	**1,682**	**5,738**
Share based remuneration (options)	–	94	94
Dividend paid	(1,399)	–	(1,399)
31 July 2013	**2,657**	**1,776**	**4,433**
Share based remuneration (options)	–	119	119
IFRS2 transfer to retained earnings	–	(742)	(742)
Dividend paid	(1,543)	–	(1,543)
31 July 2014	**1,114**	**1,153**	**2,267**

24 Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (note 25) £'000	Retained earnings Total £'000
1 August 2012	**8,138**	**(2,593)**	**5,545**
Purchase of shares into treasury	–	(1,648)	**(1,648)**
Profit attributable to owners of Parent for the financial year	1,421	–	**1,421**
Transfer from revaluation reserve (Additional depreciation on revaluation)	193	–	**193**
Transfer from revaluation reserve Realised gain on disposal of property (net of deferred tax)	1,120	–	**1,120**
31 July 2013	**10,872**	**(4,241)**	**6,631**
Profit attributable to owners of Parent for the financial year	197	–	**197**
Transfer from revaluation reserve (Additional depreciation on revaluation)	207	–	**207**
Transfer from share based payment reserve (note 23a)	742	–	**742**

Transfer from non-controlling interest	280	–	**280**
31 July 2014	**12,298**	**(4,241)**	**8,057**

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

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

The Company has taken advantage of the exemption available under the Companies Act 2006 not to present the Company income statement of Lok'nStore Group plc. The Company loss for the year was £173,882 (2013: £203,637).

25 Own shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
1 August 2012	**623,212**	**499,910**	**1,142,000**	**2,092,902**	**2,592,812**
Purchase of shares in the year	–	–	1,324,869	1,648,134	1,648,134
31 July 2013 and 31 July 2014	**623,212**	**499,910**	**2,466,869**	**3,741,036**	**4,240,946**

Lok'nStore Limited holds a total of 2,466,869 of Lok'nStore Group plc ordinary shares of 1p each for treasury with an aggregate nominal value of £24,669 purchased for an aggregate cost of £3,741,036 at an average price of £1.503 per share. These shares represent 8.87% of the Parent Company's called-up share capital. The maximum number of shares held by Lok'nStore Limited in the year was 2,466,869. No shares were disposed of or cancelled in the year.

The Group operates an Employee Benefit Trust (EBT) under a settlement dated 8 July 1999 between Lok'nStore Limited and Lok'nStore Trustee Limited, constituting an employees' share scheme.

Funds are placed in the trust by way of deduction from employees' salaries on a monthly basis as they so instruct for purchase of shares in the Company. Shares are allocated to employees at the prevailing market price when the salary deductions are made.

As at 31 July 2014, the Trust held 623,212 (2013: 623,212) ordinary shares of 1 pence each with a market value of £1,290,049 (2013: £847,568). No shares were transferred out of the scheme during the year (2013: nil).

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

26 Cash flows

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

	2014 £'000	2013 £'000
Profit before tax	**367**	1,426
Depreciation	**1,224**	1,204
Amortisation of intangible assets	**165**	165
Loss on disposal of freehold Property	**–**	86
Impairment of development land asset	**1,604**	–
Equity settled share based payments	**119**	94
Loss on sale of motor vehicles	**27**	18
Interest receivable	**(26)**	(33)
Interest payable	**1,136**	1,175
Increase / (decrease) in inventories	**7**	2
Increase in receivables	**(484)**	(562)
Increase / (decrease) in payables	**1,102**	711
Cash generated from operations	**5,241**	4,286

(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 16a less cash and cash equivalents.

	2014 £'000	2013 £'000
(Decrease)/increase in cash in the year	**(2,066)**	283
Change in net debt resulting from cash flows	**(914)**	2,922
Movement in net debt in year	**(2,980)**	3,205
Net debt brought forward	**(22,543)**	(25,747)
Net debt carried forward	**(25,523)**	(22,542)

27 Commitments under operating leases

At 31 July 2014 the total future minimum lease payments under non-cancellable operating leases were as follows:

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

	Group 2014 £'000	Group 2013 £'000
Land and buildings		
Amounts due:		
Within one year	**1,543**	1,515
Between two and five years	**5,732**	5,592
After five years	**8,740**	10,023
	16,015	17,130

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

The Group as lessor:
Property rental income earned during the year was £79,426 (2013: £95,285). This income is considered as ancillary and relatively short-term to the Group's trading activities as these properties are sites held for their development potential as self-storage centres and the rental income ceases when the buildings are demolished. These tenancies are therefore of a short term nature since tenants are served notice to vacate pending redevelopment of the site or if very short the leases run off to the end of their term. At the reporting date the Group had served notice on all existing agreements contracted with tenants, under non-cancellable leases, in preparation for the demolition of the existing buildings. Consequently at the reporting date there are no future minimum lease payments:

	Group 2014 £'000	Group 2013 £ '000
Within one year	**–**	92

28 Related party transactions

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

	2014 £'000	2013 £'000
Net amount due from Lok'nStore Limited	**2,285**	3,207

The amount due from Lok'nStore Limited is interest free. The balance is repayable on demand, however the Company has no present intention to demand repayment within one year and so the amount has been presented as a non-current asset as at 31 July 2014.

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

	2014	2013

	£'000	£'000
Short term employee benefits	**822**	653
Post-employment benefits	**30**	30
Share-based payments	**68**	38
Total	**920**	721

The Group uses Trucost plc, an environmental research company, to provide information and undertake performance assessment of the environmental effect of its business activities. Trucost plc is a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Trucost plc in respect of its environmental assessment and reporting for the year was £6,000 (2013: £6,000). The balance outstanding to Trucost plc at year-end was £nil (2013: £nil).

The Group has an agreement with Keith Jacobs, a brother of Andrew Jacobs and Colin Jacobs, for the provision of marketing services and support on a consultancy basis. The fees payable to Keith Jacobs during the year under this arrangement were £23,256 (2013: £26,519). There were no amounts outstanding due to Keith Jacobs at the year-end (2013: £nil). The maximum balance outstanding at any time during the year is £3,789 (ex VAT) (2013: £3,153).

29a Capital commitments and guarantees

The Group has capital expenditure contracted but not provided for in the financial statements of £3.85 million (2013: £3.98 million) relating to the £2.5 million development commitment at Aldershot, remaining commitments on the build-out at Reading, demolition and remediation commitments at the new Southampton site and £0.44 million at Saracen relating to increasing warehouse racking, and various other minor works.

29b Bank borrowings

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that company had gross bank borrowings of £27.7 million (2013: £26.8 million).

29c Contingent Liability – Value added tax

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

Current Dealings with HMRC

On 25 February 2008, HMRC determined that it was appropriate to raise an initial assessment in the amount of £140,903 in respect of Lok'nStore's partial exemption calculations, under the Standard Partial Exemption Method ("standard method") for the VAT periods April 2005 through April 2007. Lok'nStore rejected the basis of this assessment and has advanced a number of other proposals and arguments in a bid to resolve this dispute. Following the formal rejection of the various proposals which were submitted for a PESM, a local review of the decision was requested which upheld the rejection of a PESM. This decision was appealed by Lok'nStore to the Tax Tribunal in September 2009. Counsel also confirmed that Lok'nStore should carry out a Standard Method Override Calculation ("SMO") and that this should be calculated on the same basis as the proposed mixed floor space and values based method.

Position at Year End

The First Tier Tribunal Hearing (FTT) took place in July 2012 to consider the matter and judgement was received in September in favour of Lok'nStore. The Judge found that while there was some link between overhead costs and the cost of insurance there was not a significant link and concluded that the standard method was not a fair proxy for use and went to find that our proposed method gave a more accurate proxy for use and should be accepted.

HMRC were allowed leave to appeal to the Upper Tribunal (UT) in respect of the First Tier Tribunal Judgement. The Upper Tribunal Hearing took place in December 2013 to consider the matter. On 23 June 2014 the Upper Tribunal dismissed HMRC's appeal. On 19 August 2014 HMRC confirmed to Lok'nStore that all residual input tax incurred by Lok'nStore may be recovered according to a PESM based on floor areas and values.

Accordingly the floor-based special method now accepted will give a restriction of less than 0.1%, in which case the total amount of VAT (plus interest) to be assessed by HMRC would on the figures give a de minimis result.

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