LOK'n STORE

Business & Household Self Storage

Lok'nStore Group Plc
Annual Report & Accounts 2008

The Big Friendly Storage Company

Financial Highlights

- Revenue £10.83 million up 8.4% like-for-like (2007: £10.67 million)
- Group EBITDA £2.73 million up 2.7% like-for-like (2007: £2.90 million)
- Operating profit £0.66 million (2007: £1.31 million) down 11.5% on a like-for-like basis before the write-off of goodwill
- Adjusted NAV* £2.44 per share (2007: £2.70 per share)
- Embedded Value** per share £3.43 per share (2007: £3.57 per share)
- Final dividend proposed 0.67 pence per share (2007: 0.67 pence per share)

Operational Highlights

- Store EBITDA £4.61 million (2007: £4.48 million) up 11.9% on a like-for-like basis
- Store EBITDA margin increased to 42.9% (2007: 41.8%)
- Unit prices achieved for self-storage up 4.2% year-on-year

Property Highlights

- Total portfolio 1.23 million sq ft up 18.1% (2007: 1.04 million sq ft) (64% freehold/long leasehold)
- Three new sites acquired
- New Portsmouth freehold store opened
- High density residential planning permission achieved on Reading site
- Planning permission achieved for new Southampton store (post balance sheet)

* refer to page 17 for detailed calculation
** refer to Property Review

Store EBITDA

£4.61M

Adjusted net asset value per share

£2.44

Property valuation at 31 July 2008

£86.4M

Revenue

£10.83M

We're Big


LOK'n STORE
STORAGE
The Big Friendly Storage Company
LOK'nSTORE
Hawley Lane
Farnborough

and Friendly

"We continually review all aspects of our business, never accepting that things cannot be improved. We listen to our customers to help to improve our services. In return we have been rewarded with customer loyalty."

Chairman's Review

Store EBITDA margin

42.9%

Overview

Lok'nStore performed well over the last year, underlining the resilience of its business model against a challenging economic backdrop. Turnover increased 8.4% like-for-like and store EBITDA increased to a record £4.6 million, up 11.9% on a like-for-like basis.

We are proposing a final dividend of 0.67 pence per share, demonstrating our confidence in the strength of the business.

Impact on Current Year Results of Prior Year Disposals

At the end of the last financial year we sold our stores in Kingston and Woking. These two stores were established cash producing stores with substantial revenues, but with little scope for further growth or expansion. In the case of Kingston we managed to achieve a planning permission for high density residential development that resulted in a value far higher than could be achieved by self-storage use. The sale proceeds of around £12.5 million are being reinvested in new stores and these typically larger stores will increase the profitability of the Group when they start trading in future years.

Accordingly, in this narrative we have shown the comparative figures excluding Kingston and Woking from the previous period in order to show shareholders the growth of the underlying operating performance of the remaining assets over the period. Where a reference is made to 'like-for-like' in this document this excludes the Kingston and Woking stores from the 2007 figures for comparative purposes (see table on page 9 for details).

At a headline level you will see that we have largely or wholly replaced the revenue and profit foregone from these disposals over this period, a pleasing performance. We were able to relocate many of the Kingston customers to our Sunbury store.

First Full Year of IFRS

These are the first full year accounts that the Company has reported under International Financial and Reporting Standards ('IFRS').

The main change, more fully set out with other accounting changes in the Financial Review and the notes to the financial statements, is that under IFRS our 11 freehold sites are now held in the balance sheet at fair value, having previously been held at historic cost less accumulated depreciation. These fair values have been determined externally by Cushman and Wakefield. (Refer to note 11 – fixed assets and also to the accounting policies in relation to the fair value of trading properties on page 37).

The leasehold stores are held as 'operating leases' and are not taken onto the balance sheet. However seven of these have also been externally valued and these external valuations have been used to calculate the net asset value position of the Company.

Net Asset Value

The adjusted net asset value per share has decreased from £2.70 last year to £2.44 this year (see Financial Review). This equates to a total value of properties held of £86.4 million. When all of our existing stores trade as fully established stores this translates into £3.43 per share embedded value (see Property Review).

During the course of the year we purchased 1.14 million shares in the Company for treasury representing 4.3% of the issued share capital. This was done at an average price of £1.82 per share, significantly below net asset value. Your Board considers that share buybacks at large discounts to net asset value represent good long-term value for remaining investors.

Current Conditions in the Economy and Self-storage Market

Historically the self-storage market has been considered to be closely related to the housing sector. In Lok'nStore's view the household demand for storage is affected more by the number of house moves than by the level of house prices. In the period under review transactions in the housing market collapsed from a peak of 154,000 in December 2006 to 126,000 in September 2007 and only 59,000 in September 2008, a decline of 62%. Lok'nStore has proved its resilience

> With Lok'nStore's flexible approach and robust business model we will maximise the cash flow from the existing portfolio until economic conditions stabilise.

Final dividend pence per share

0.67p

against low housing market volumes with our household business declining only 1.3% over this period.

At the end of July 2008 40.5% of Lok'nStore's revenue was from business customers (25.1% by number) and 59.5% was from household customers (74.9% by number) providing further insulation. The Company's commercial business increased 0.3% from July 2007 through to September 2008. Further none of our credit control indicators are showing any signs of weakening through the first quarter of our financial year to the end of October 2008.

We do expect trading conditions to remain challenging for the foreseeable future. Occupancy growth will be hard to come by, so it will be increasingly important to achieve pricing increases and to continue to be vigilant with costs.

Our new Harlow store will open on 2 January 2009. Importantly the Company has no further capital expenditure commitments beyond this so we are in the fortunate position of being able to monitor conditions in the overall economy and the UK self-storage market before committing to any further outlays.

The Self-storage Market in the UK

The self-storage market in the UK has grown rapidly over the last decade and continues to offer a great opportunity, particularly to major operators such as Lok'nStore. The UK Self-Storage Association estimated that in 2007 the market grew by around 15%.

The more mature US market grew from 2.9 sq ft per member of the population in 1994 to 6.9 sq ft in 2007 with nearly 45,000 facilities throughout the US. This compares with only 0.4 sq ft in the UK spread across around 680 facilities. This lower penetration in the UK contrasts with the difference in population density which is only 32 per sq km in the US against 246 per sq km in the UK. This creates far more pressure to use property resources efficiently in the UK, which is a main driver of demand for self-storage. Combined with this, the restrictive town planning regime in the UK is a strong barrier to entry in the industry.

Therefore despite the current economic environment we believe that the UK self-storage market offers excellent medium and long-term potential and Lok'nStore is well positioned to capitalise on this.

Lok'nStore is the fourth largest and one of three quoted storage operators in the UK, with around a 5% market share.

Outlook

With Lok'nStore's flexible approach and robust business model we will maximise the cash flow from the existing portfolio until economic conditions stabilise. We have no capital commitments beyond opening our new Harlow store and comfortably complied with bank covenants at the year-end. Our banking facilities run to 2012.

In the current uncertain economic climate it is difficult to forecast the future outlook. However we continue to see a resilient demand from our business customers and have absorbed the biggest collapse in housing transactions since records began. We continue to be the low cost operator in the sector but have room for future price increases. UK self-storage is an attractive long-term growth market and we are well positioned for future growth.

Simon G Thomas
Chairman
6 November 2008

Chief Executive's Operating Review

Sales up year-on-year

8.4%

Excluding Kingston and Woking stores

Sales and Earnings Growth

Lok'nStore's total revenue for the year was £10.83 million (2007: £10.67 million), a like-for-like increase of 8.4%, and a headline increase of 1.5%. Having sold two established stores at the end of the previous financial year we are particularly pleased with this result.

The cash flow of the operating business has continued to grow with store earnings before interest, tax, depreciation and amortisation (Store EBITDA) up 11.9% like-for-like at £4.61 million (2007: £4.48 million). This is a key performance indicator and reflects both the effects of the efficient operational management and the increasingly established nature of the existing portfolio.

During the year we have acquired three new sites, opened one of these (Northampton Central), moved our Portsmouth store into a new larger purpose-built freehold site, and in September 2008, obtained planning permission for the new Southampton site.

Sales and Margin Performance

We have recruited a new sales and operations Director with a strong background in retailing. His retail management skills and experience have helped to further raise operational standards, and to focus store personnel on taking personal responsibility for increasing revenue. This work will continue to improve the consistency of performance across the stores.

During the year Lok'nStore had 15 established stores (over 250 weeks old) including one freehold store which joined this category during the year. These 15 stores made EBITDA margins of 43.5% this year compared to 42.9% last year for the same 15 stores.

Our established stores have continued to grow alongside the more rapid sales increases at our newest stores. On a like-for-like basis, our 15 stores trading for more than 250 weeks grew revenue by 4.6%. We believe there is room for further increases in these more established stores with new space still to be fitted out in addition to improving income from existing space.

On a same store basis, our four stores with 100 to 250 weeks' trading grew revenue by 18.9% with Farnborough and Crayford moving into this category during this year. We are pleased both by the continued growth of the more established stores as well as by the early success of the newer units.

Overall EBITDA margins across all stores improved from 41.8% to 42.9%.

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

Pricing

Lok'nStore takes an active approach to yield management with average prices achieved for self-storage units increasing 4.2% over the year (2007: 5.4%) beating our target of 4%. Average prices for all rented space increased 3.6% (2007: 7.2%) over the year. The continued success of our yield management system underlies our confidence that we will be able to increase prices over the medium term. Clearly with weaker economic growth over the coming year making occupancy growth harder to come by, managing yield effectively will be an important focus.

Our average price for self-storage was £18.01 per sq ft per annum at 31 July 2008 (2007: £17.29 per sq ft per annum), which compares favourably with the average of £20.63 for the UK industry (source: Self-Storage Association Survey 2007). Other large self-storage operators also appear to be raising prices successfully so we believe that there is room to continue to increase prices while retaining our strong price competitive position in the market.

Packing materials, insurance and other sales increased by 0.5% over the year on a like-for-like basis accounting for 7.5% of revenue (2007: 7.8%).

Operational Performance of Stores

Store analysis Weeks old	July 2008 Over 250	100 to 250	Under 100	Pipeline	Total
Year-ended 31 July 2008					
Revenue (£'000)	8,498	2,254*	1	–	10,753*
Stores EBITDA (£'000)	3,697	966	(55)	–	4,608
EBITDA margin (%)	43.5	42.9	n/a	–	42.9
As at 31 July 2008					
Maximum Area ('000 sq ft)	765	209	40	212	1,226
Freehold and long leasehold	8	2	0	3	13
Short leasehold	7	2	1	0	10
Total stores	15*	4	1	3	23

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

Revenue and Earnings Comparison – Actual and Like-for-Like

	Year ended 31 July 2008 Actual £	Year ended 31 July 2007 Actual £	Increase/ (decrease) July 2008 vs. July 2007 %	Year ended 31 July 2007 Excl Kingston & Woking £	Like-for-like increase/ (decrease)* July 2008 vs. July 2007 £
Revenue	**10,827,064**	10,665,532	1.5	9,989,976	8.4
Store EBITDA	**4,608,824**	4,478,055	2.9	4,120,112	11.9
EBITDA	**2,732,632**	2,903,396	(5.9)	2,661,282	2.7
Operating profit	**662,733**	1,311,035	(49.4)	1,099,413	(39.7)
(Loss)/profit before tax	**(741,446)**	950,558		738,937	

* In this table we show the comparative figures excluding Kingston and Woking from the previous year in order to show shareholders the growth of the underlying operating performance of the remaining stores. Where a reference is made to 'like-for-like' this excludes the Kingston and Woking stores from the 2007 figures for comparative purposes. We were able to relocate many of the Kingston customers to our Sunbury store.

EBITDA margins

42.9%

Chief Executive's Operating Review continued

Marketing

The Company spent approximately 5.8% of revenue on advertising and marketing (including postage, printing and stationery), up from 5.5% in 2007.

The Internet produces an increasing proportion of our enquiries and physical Directories a decreasing proportion, and we continue to allocate more of our marketing budget towards the Internet. With the current challenging business conditions we are giving a strong focus to cost control and we have reduced the marketing budget by around 16% for the coming year.

Enquiries from the Internet have a lower conversion ratio of around 31% in the year under review. This pulled our overall conversion rate down to 44% from 56% in the previous year. This may also be symptomatic of customers shopping around more in the current economic climate so we are focusing our sales and marketing efforts on tools to improve conversion.

New stores benefit from the marketing and promotion effort already applied to our existing stores and we can see the benefit of this at our Northampton Central store where we have not allocated any extra marketing budget. It is noteworthy that 23% of our business is from referrals and previous and existing customers.

43% of business comes from passing traffic so work on the visibility of our stores is also improving response to our marketing. Our new Portsmouth store with its prominent design, distinctive orange elevations and position adjacent to the port helps the profile of the Lok'nStore brand, as well as work on the external branding of other stores further improving the appearance of the overall portfolio.

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

Systems

Centralisation of our store management computer system continues to yield marketing and other management information benefits and we remain committed to continuing systems centralisation, greater audit capability and the delivery of efficient and timely data. During the year we have completed the implementation of a new financial and accounting system which delivers enhanced analysis and reporting of our core financials. The system also integrates our stores and head office via a web-enabled system to deliver more automated and integrated processes in areas of petty cash and expenses handling as well as stock reporting. We continue to increase the penetration of direct debit facilities which reduces administrative effort as well as being a positive service to our customers and reducing the time committed to credit management. The store audit system has been effective in terms of improved security, credit control and store presentation and is continually monitored and upgraded to ensure its utility.

Security

The safety and security of our customers and their goods remains our highest priority. With today's heightened terrorist concerns this is of particular importance. We already invest in CCTV, intruder and fire alarm systems and the remote monitoring of our stores out of hours. We have rigorous security procedures in relation to customers.

Furthermore, we continually review our security resources and are upgrading our security with up-to-date equipment, for example, colour CCTV monitors of greater capability and detail, and improved lighting. The importance of security and the need for vigilance is communicated to all personnel and reinforced through our various training procedures.

Corporate Social Responsibility

Lok'nStore believes in conducting its business in a manner that reflects honesty, integrity and ethical conduct. As a responsible company,

103 employees

Lok'nStore believes that the long-term success of the business is best served by respecting the interests of all our stakeholders. Management of social, environmental and ethical issues is of high importance to Lok'nStore. These issues are dealt with on a day-to-day basis by the Company's managers with principal accountability lying with the Board of Directors. We look actively for opportunities to address our responsibility to the environment, and a full assessment of the Company's environmental impact is included elsewhere in this report. This year has seen a significant reduction in our carbon dioxide emissions, water use and waste production.

Dealing Responsibly with Our Customers

Brochures and literature are written in plain English, explaining clearly our terms of business without hiding anything in the 'small print'. We are open and honest about our products and services. We do not employ pressure selling techniques or attempt to take advantage of any vulnerable groups. If something is wrong we acknowledge the problem and deal with it as soon as possible. We continually review all aspects of our business, never accepting that things cannot be improved. We listen to our customers to help us improve our service. In return for our responsible dealings with our customers we have been rewarded with customer loyalty. 23% of our business comes from previous customers, existing customers taking additional units, and referrals.

Dealing Responsibly with Our Suppliers

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

Our People

At 31 July 2008, we had 103 employees (2007: 111).

We treat our employees with dignity and respect and are committed to providing a positive attitude in the business and an enjoyable working environment. We have developed a professional open culture where staff can exchange ideas and offer suggestions for work and business improvement. This encourages our staff to build on their skills, through appropriate training and regular performance review. Regular weekly training courses at our Farnborough Head Office support these objectives where we have a large conference room which can accommodate all our training requirements for the foreseeable future. This reduces outgoings and increases and improves contact between Head Office and the stores by bringing staff into Head Office for regular training. This in turn contributes to attracting and retaining the right people which is key to the success of Lok'nStore. Additionally the Company supports employees undertaking National Vocational Qualifications.

All employees are eligible to participate in share ownership plans and 24% of our employees have employee benefit trust shares and 18% hold options. 24% of the personnel are members of the contributory pension scheme. At the beginning of the year Lok'nStore launched a new Share Incentive Plan with 55% of employees participating in the Scheme. This high level of participation is testament to the loyalty and commitment of our staff.

Our personnel are committed and motivated and help maintain the exemplary levels of friendly service that Lok'nStore provides to its customers. I would like to thank all of our staff for their commitment to our business and for their hard work. The continuing progress of the Group is being achieved as a direct result of their efforts.

Andrew Jacobs
Chief Executive Officer
6 November 2008

Property Review

New sites acquired 3

Property Assets and Net Asset Value

Lok'nStore's freehold and operating leasehold properties have been independently valued by Cushman & Wakefield ('C&W') at £72.1 million as of 31 July 2008 (July 2007: £75.7 million) compared to a net book value of £35.4 million (2007: NBV £27.9 million). This is referred to further in the Financial Review and is detailed in note 11 of the notes to the financial statements. Adding our stores under development at cost, our total property valuation of £86.4 million (NBV £45.5 million) translates into a net asset value of 244 pence per share, a decrease of 9.6% compared to last year. The value of the properties which were also valued in July 2007 and therefore on a comparable basis showed a decrease of 3.26%. This represents a 3.56% decrease in capital growth (yield increase) and 0.30% increase from operational performance.

New Stores

During the year we acquired a 20 year leasehold site in Northampton which is prominently located close to the city centre. The existing building was fitted and branded on a short timescale and opened in July 2008, providing up to 40,000 sq ft of self-storage space. Total investment was around £1.1 million.

We will officially open our new purpose-built store in Harlow in January 2009. This is located in an attractive market and will be highly branded and prominent. This high specification freehold store will cost approximately £5.5 million once fully constructed and fitted-out. It will provide 69,000 sq ft of space, and increases the Company's total trading area when fully fitted to 1,067,000 sq ft, breaking the 1 million sq ft barrier for the first time.

In October 2007 Lok'nStore purchased a freehold site in North Harbour, Portsmouth. The freehold site extends to almost two acres and will be used to build a new self-storage centre of around 60,000 sq ft of space once planning permission is obtained. The store will front the A27 to the north of Portsmouth, is opposite a busy retail area and is prominent to the M27. Total net investment in the store is likely to be around £6 million.

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

These acquisitions will take the Company's total number of stores to 23. A development pipeline of 228,000 sq ft takes total space to over 1.23 million sq ft of which 64% is held freehold/long leasehold. Of these 23 stores eight will be purpose-built with a further three occupied as brand new buildings showing the continuous upgrading of Lok'nStore's estate.

In the second half of the year we completed the move from our old leased Portsmouth Central store to a new purpose-built freehold store located immediately adjacent to the motorway spur into the middle of Portsmouth city. We successfully moved 96% of the customers to the new store. The new store is 74% larger than the old one, and already trading cash-generatively. We have recognised an exceptional cost of £125,814 relating to this move and the full cost has been written off in the Income Statement.

Part of our strategy is to increase store size and the number of stores in order to increase profit margins. Our current average store size (including pipeline) is now around 53,300 sq ft up from just over 51,900 sq ft at 31 July 2007. The exact timing of store openings will largely depend on market availability of sites and obtaining planning permission. We will retain our disciplined but flexible approach to site acquisition and view the current slowing of

> With the current uncertain economic environment we are monitoring market conditions carefully before making further capital expenditures, although we still believe that acquiring land and building and opening new stores will add to shareholder value over the medium and long-term.

the property investment market as a potential opportunity to acquire new stores. However with the current uncertain economic environment we are monitoring market conditions carefully before making further capital expenditures.

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

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

When market circumstances are appropriate the site of the existing store may be sold with the benefit of its permission for residential development and the proceeds will be reinvested in our new store pipeline. The two properties in Reading are held at a cost of £2.2 million.

Expansion of Existing Stores

We reported last year that we had acquired a freehold site on Third Avenue, Millbrook, Southampton. The site of 2.16 acres fronts the main access road to Southampton city centre. It will replace the existing Southampton Lok'nStore, which is located a few hundred metres away and currently provides up to 84,000 sq ft in a freehold property. On 30 September 2008, after the Group's year-end, we secured planning permission on this new site and it will provide around 100,000 sq ft of self-storage space. (Refer note 30 – Events after the balance sheet date).

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

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

Portfolio

With the sale of the Kingston and Woking stores at the end of the previous financial year we currently have 20 stores open with capacity of around 1 million sq ft of storage space when fully fitted. Ten stores are held freehold and ten are leasehold. With the new freehold sites at Portsmouth, Harlow and Southampton this net new space takes capacity to 1.17 million sq ft. Adding the North Harbour and Maidenhead sites total capacity rises to around 1.23 million sq ft. Of this 64% will be held freehold and 36% leasehold. We prefer to acquire freeholds if possible, and where opportunities arise we will seek to acquire the freehold of our leasehold stores. However we are happy to take leases on appropriate terms and benefit from the advantages of a lower entry cost.

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

Embedded Value

The Cushman & Wakefield valuation includes a calculation of the value of the estate once fully established, which together with stores under development at cost represents the embedded value of the estate. This translates into a value of £3.43 per share (2007: £3.57 per share).

Andrew Jacobs
Chief Executive Officer
6 November 2008

Embedded value per share

£3.43

Financial Review

Group EBITDA

£2.73M

Main changes as a result of adoption of IFRS

- Freehold property values have been recognised in the balance sheet at their fair value levels increasing tangible assets by £35.3 million to £81.0 million (historic cost £45.7 million).
- Comparative figures have been similarly restated.
- A deferred tax provision of £12.4 million is shown which predominantly results from this revaluation surplus.

Trading

Total revenue for the year was £10.83 million (2007: £10.67 million), an increase of 1.5%, which increases to 8.4%, on a like-for-like basis adjusting for the sale of our Kingston and Woking stores.

Total store EBITDA, the cash flow engine of the operating business, has continued to grow this year to £4.61 million, up 11.9% from last year on a like-for-like basis (2007: £4.48 million).

Group EBITDA, before exceptional items, was £2.73 million (2007: £2.90 million). The Group made an operating profit for the year of £662,732, down 39.7% compared with £1,099,413 in 2007 on a like-for-like basis

The Group made a pre-tax loss for the year of £741,446 compared with £950,558 profit in 2007.

Lok'nStore's self-storage business model is a robust one with security deposits taken from customers. Customers also pay four weekly in advance. Therefore credit control remains tight with only £45,200 of bad debts written off during the year representing around 0.4% of revenue (2007: 0.4%). There was £3,702 of additional costs associated with recovery (2007: £8,072).

The net interest charge increased from £965,740 to £1,278,928. This is a consequence of the Group utilising its bank facilities to acquire the freehold sites at North Harbour, Portsmouth, and Maidenhead, further site fit-out at the Harlow and Northampton Central stores, and the continuing fit-out programme at our existing trading stores. Year-end borrowings were £25.4 million. Net debt was £23 million.

There is no corporation tax liability to pay due to the availability of tax losses. Tax losses available to carry forward for offset against future profits amount to some £5.7 million. The Company has made a claim for rollover relief in respect of the gains arising on the disposal of the stores during the last financial year.

Basic (loss)/earnings per share was (3.21) pence per share (2007: 2.5 pence per share). On a diluted basis earnings per share was (3.21) pence per share (2007: 2.4 pence per share).

Borrowings and Cash Flow

Cash flows from the Group have grown. The Group utilises cash generated from operations to fund some of the store capital expenditure rather than draw against its revolving credit facility.

Cash inflow from operating activities before interest and capital expenditure was £1.4 million (2007: £5 million). The net cash from operating activities in the cash flow statement was distorted by £1.7 million of VAT provided in trade and other payables at 31 July 2007 arising on the disposal of the Kingston store, which was paid during the year. The Group is cash generative as demonstrated by its EBITDA earnings from its operating activities.

The Group also draws from its five year revolving credit facility with Royal Bank of Scotland Plc to finance new site acquisitions,

Adjusted Net Asset Value per Share

£2.44

Total store EBITDA, the cash flow engine of the operating business, has continued to grow this year to £4.61 million, up 11.9% from last year on a like-for-like basis.

Property valuation

£86.4M

construction and store fit-outs. This provides sufficient additional liquidity for the Group's immediate expansion plans. Interest is payable on the loan at a rate of between 1.25% and 1.35% over LIBOR. Non-utilisation charges are 0.25% on the value of the undrawn facility. Undrawn committed facilities at the period-end amounted to £14.6 million. The facility is secured on the existing property portfolio.

Turbulence in the capital and debt markets caused LIBOR rates to fluctuate materially during the year under review with some sharp upward spikes. This resulted in the business incurring higher interest charges on the revolving loans rolled over during the year. The 'All-in' average rate since July 2007 was 7.28% compared to 6.85% last year.

During the year the Group complied with all debt covenants.

The Group is committed to growing its business through a combination of new site acquisition and related works. Capital expenditure during the period totalled £14.3 million, which includes the acquisition of the freehold site at North Harbour, Portsmouth and the acquisition of a long lease at Maidenhead. Store construction at Portsmouth Central (£2.35 million) and ongoing build at Harlow (£2.5 million) as well as the fit-out at Northampton Central (£1.1 million) all added to a total £13.1 million. The balance of the additions relate to fit-outs at the existing stores including the enlargements of the existing Northampton and Fareham stores. In December 2007, the Group received £4.14 million representing the balance due, plus accrued interest, following the sale of the Kingston store in June 2007 for £10 million.

At 31 July 2008, the Group had cash balances of £2.48 million (2007: £5.19 million) and £25.4 million of borrowings representing gearing of 53.5% on net debt of £23 million (2007: 20.5%). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the balance sheet, gearing is 47.3%. (2007: 18.8%). After adjusting for the deferred tax liability carried at year-end of nearly £12.5 million gearing drops to 38% (2007: 15%).

Buy-back Authority

At the Company's AGM on 7 December 2007 shareholders approved renewal of the existing share buyback authority. This authority will be sought at the Company's Annual General Meeting again this year. The authority is restricted to a maximum of 5,845,299 Ordinary Shares, which is equivalent to 21.8% of the Company's issued share capital and is equal to the number of shares available for purchase under the previous authority. The buy-back authority will only be exercised in circumstances where the Directors regard such purchases to be in the best interests of shareholders as a whole and is subject to the waiver of Rule 9 by the Panel

Total revenue

£10.83M

Financial Review continued

of Takeovers and Mergers being approved by the shareholders.

The total number of Ordinary Shares in issue is 26,758,865 (2007: 26,731,365).

Balance Sheet

Net assets at the year-end decreased to £42.9 million (2007: £50.9 million) mainly as a result of the 2008 property valuation which valued freehold properties at £60.5 million (2007: £66.3 million). This valuation translates into an adjusted net asset value per share of £2.44 (2007: £2.70) as reported below.

The Employee Benefit Trust owns 624,947 (2007: 627,500) shares, the costs of which are shown as a deduction from shareholders' funds. During the year the Company purchased in several tranches a total of 1,142,000 of its own Ordinary Shares of 1 pence each for treasury with an aggregate nominal value of £11,420 for an aggregate cost of £2,092,902 at an average price of 181.88 pence per share (2007: nil). These shares represent 4.27% of the Company's issued share capital.

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2008, professional valuations were prepared by external valuers Cushman & Wakefield (C&W) in respect of eleven freehold and seven operating leasehold properties. All of these leasehold properties are classified as operating leases and not revalued in the financial statements. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards 6th Edition. The valuation has been provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book.

The external valuation methodology provides for a purchaser acquiring a centre incurring purchase costs of 5.75% initially and sale plus purchaser's costs totalling 7.75% are assumed on the notional sales in the tenth year in relation to the freehold stores. In practice we believe that it is unlikely that the bulk of Lok'nStore's properties would be acquired other than in a corporate structure (see note 11 in the notes to the accounts for a more detailed description of the valuation methodology).

The valuation report indicates a total for properties valued of £72.1 million (NBV £34.2 million) (2007: £75.7 million: NBV £27.9 million). In relation to the existing store at Reading there is a prospect of redevelopment for residential use and the valuation reflects this. Accordingly, the Lok'nStore Reading site across the road which has planning permission for a store has been valued as an operating self-storage site including an additional uplift to reflect the import of customers from the existing Reading store in due course. The valuations do not account for any further investment in existing stores since 31 July 2008. The sites at Harlow, Maidenhead, Portsmouth North Harbour and Southampton have not been valued and their asset value (stated at cost) of £14.4 million combined with the C&W valuation provides an aggregate property value of £86.4 million.

This translates into a net asset value of 194 pence per share after making full provision for deferred tax arising on the revaluations (2007: 213 pence).

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

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

Our operating leases remain as operating leases under IFRS (Refer section below on the full effect of International Financial Reporting Standards ('IFRS')).

Both historically and currently we have valued our freehold and our leasehold property assets. We have reported this as information but have not previously included their values into the balance sheet although we base our Net Asset Value ('NAV') calculation upon it. Under IFRS the valuations of our freehold property assets, are now formally included in the Balance Sheet at their fair value, but the IFRS rules do not permit the inclusion of any valuation in respect of our leasehold stores to the extent that they are classified as operating leases. The value of our operating leases in the valuation totals £11.57 million (2007: £9.44 million). Instead we have reported by way of a note the underlying value of these leasehold stores in future revaluations and adjusted our Net Asset Value ('NAV') calculation accordingly to include their value. This will ensure comparable NAV calculations.

Analysis of Total Property Value

	No. of stores	**31 July 2008 Valuation £**	No. of stores	31 July 2007 Valuation £
Freehold valued by C&W	11	**60,510,000**	11	66,275,000
Leasehold valued by C&W	7	**11,570,000**	6	9,440,000
Sub total	18	**72,080,000**	17	75,715,000
Sites in development at cost	4	**14,366,321**	2	4,609,013
Total	22*	**86,446,321**	19*	80,324,013

* Three Leasehold stores were not valued (2007: four) as their remaining unexpired terms were insufficient to yield a value under the Cushman & Wakefield valuation methodology.

Adjusted Net Asset Value per Share

Analysis of net asset value (NAV)	31 July 2008 £m	31 July 2007 £m
Total non-current assets	**80,950,612**	76,064,162
Adjustment to include leasehold stores at valuation		
Add: C&W leasehold valuation	**11,570,000**	9,440,000
Deduct: leasehold properties and their fixtures and fittings at NBV	**(5,939,842)**	(4,806,254)
	86,580,770	80,697,908
Add: current assets	**4,864,958**	11,188,428
Less: current liabilities	**(5,162,205)**	(6,000,253)
Less: non-current liabilities (excluding deferred tax provision)	**(25,311,225)**	(15,492,606)
Adjusted net assets before deferred tax provision	**60,972,298**	70,393,477
Deferred tax	**(12,431,474)**	(14,851,644)
Adjusted net assets	**48,540,824**	55,541,833

Shares in issue	Number	Number
Opening shares	**26,731,365**	25,091,144
Shares issued for the exercise of options	**27,500**	1,640,221
Closing shares in issue	**26,758,865**	26,731,365
Shares held in treasury	**(1,142,000)**	–
Shares held in EBT	**(624,947)**	(627,500)
Closing shares for NAV purposes	**24,991,918**	26,103,865
Adjusted net asset value per share after deferred tax provision	**194 pence**	213 pence
Adjusted net asset value per share before deferred tax provision	**244 pence**	270 pence

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

The seven leaseholds valued by Cushman & Wakefield are all within the terms of the Landlord and Tenant Act (1954) giving a degree of security of tenure. The average length of the leases on the leasehold stores valued was 12.32 years at the date of the 2008 Valuation (source: C&W) (2007 valuation: 12.1 years) having increased with the addition of the Northampton Central lease.

Treasury
All cash deposits are placed with The Royal Bank of Scotland Plc on treasury deposit utilising either one-day or two-day money funds. The Group's cash position is reviewed daily and cash is transferred daily between these accounts and the Company's operational current accounts as required.

Administration Expenses
Administration expenses are analysed into three categories namely: 1) premises costs, 2) staff costs and 3) overhead expenses.

Administration expenses amounted to £7.80 million for the year (2007: £7.43 million) an increase of 4.9%. Premises costs accounted for 41.0% of these costs (2007: 41.8%), staff costs 39.4% (2007: 40.8%) and overheads 19.6% (2007: 17.4%).

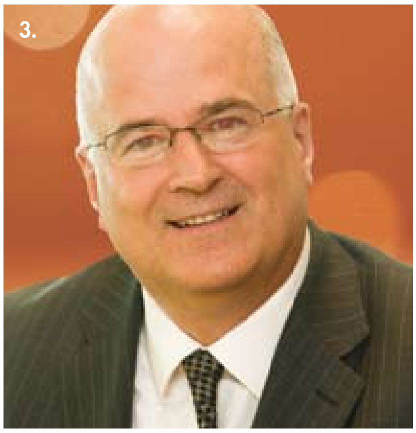
Interest on Bank Borrowings
Interest on bank borrowings for the year increased to £1,608,587 up from £1,113,201 in 2007 reflecting the increase in net borrowing over the period, coupled with the rise in interest rates. The average cost of borrowing during the year was 7.28% against 6.85% in the prior year. £68,157 of the increase in the interest payments is due to the rise in interest rates and £414,096 due to the increased average borrowings.

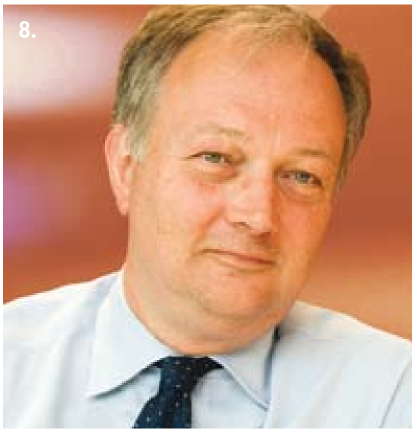
The interest cost to the Group is increased by the £14.37 million of development pipeline costs that the Group is currently carrying. The interest against this cost has not been capitalised. If interest had been capitalised, the Group's adjusted profit would have been approximately £795,059 higher for the year. From 1 August 2009, in accordance with changes to International Financial Reporting Standards, we will capitalise interest against our development pipeline.

International Financial Reporting Standards ('IFRS')
These are the first full annual consolidated financial statements that the Group has reported under IFRS. The move to IFRS has not changed the underlying performance and cash flow of the business but has impacted on the way in which results are presented. The main considerations for Lok'nStore are described in detail in note 33 of the notes to the financial statements on page 62.

Ray Davies
Finance Director
6 November 2008

Board of Directors and Advisers





Executive Directors

1. Andrew Jacobs (49)
Chief Executive
Andrew established Lok'nStore in February 1995 after eight years experience as a stockbroker, at Nomura International in London. He has an MPhil in Economics from Cambridge University and BSc in Economics from the London School of Economics.

Andrew is responsible for strategy, corporate finance and property.

2. Simon Thomas (48)
Chairman
Simon has been an Executive Director of Lok'nStore since 1997 after a successful career in the publishing and finance sectors. He co-founded the emerging markets investment trust business at LCF Edmond de Rothschild. He has also worked at Swiss Bank Corporation, Nomura International and Reed International.

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

3. Ray Davies (51)
Finance Director
Ray, a chartered accountant, has held a number of senior finance positions in the construction, and health and fitness sectors.

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

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

Ray is responsible for finance, administration and risk management.

4. Colin Jacobs (44)
Director
Prior to joining Lok'nStore Colin worked for the Courts Group of Companies in sales and marketing functions. Colin is responsible for identifying and negotiating new sites for Lok'nStore.

Non-Executive Directors

5. Edward Luker (59)
Senior Non-Executive Director
Edward is a well known figure in the UK property industry, having worked for CB Richard Ellis for 33 years, where he has been a Director and Partner for 20 years. In 1997/8 Edward was Chairman of the Investment Property Forum, the industry body, and has acted for a number of pensions in the creation of property investment funds. Edward is a Fellow of the Royal Institute of Chartered Surveyors and is currently the discretionary portfolio manager of one of the UK's largest public sector pension funds investing in property.

Edward sits on the Remuneration Committee.

6. Robert Ward Jackson (52)
Non-Executive Director
Robert joined Lok'nStore during 2004 as a Non-Executive Director. Robert is a qualified chartered accountant with extensive experience in investment banking in London, working with Messel and Charterhouse after qualifying at Coopers & Lybrand. Since 1994, Robert has had a wide range of experience in the quoted and unquoted arenas. More recently this included his role as Chief Executive of FII Group PLC.

Robert leads the Audit Committee.

7. Richard Holmes (48)
Non-Executive Director
Richard recently took up the role of Marketing Director of Specsavers.

Previously Richard has had a number of senior positions within the Boots organisation, including Director of Offer Development at Boots e-commerce business, Marketing Director of Boots the Chemist and Director of Health & Beauty.

Richard was also Head of Strategy Development for Unilever's worldwide dental business. Richard holds an MSc in Economics from Warwick University and a BSc in Economics from the London School of Economics.

Richard heads the Remuneration Committee.

8. Charles Peal (53)
Non-Executive Director
Charles started his career in 1977 at 3i Group, the leading UK quoted Venture Capital Company. He was the Chief Executive of Legal and General Ventures from 1988 to 2000 and was a Director of various quoted private equity investment trusts and management buyouts. He is currently a Director of Warnborough Asset Management, an independent fund management business, and other private equity investments.

Charles sits on the Audit Committee.

Advisers

Directors

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

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

Registered in England and Wales No. 4007169

Nominated Adviser and Broker
Investec Bank (UK) Ltd
2 Gresham Street
London EC2V 7QP

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

Solicitors
Maclay Murray Spens LLP
One London Wall
London EC2Y 5AB

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

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

Directors' Report

The Directors submit their report and the audited financial statements of the Company and of the Group for the year ended 31 July 2008.

Principal Activity

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

Review of the Business and Future Developments

A detailed account of the Group's progress during the year and its future prospects are set out in the Chairman's Review on pages 6 and 7.

A detailed Operating Review, Property Review and a Financial Review have been prepared and are set out on pages 8 and 12 and pages 14 to 17 respectively. The business objectives are set out within the Operating Review.

The key performance indicators are included within the Highlights (see page 1) and the Financial Review (see pages 14 to 17).

Financial Instruments

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

Principal Business and Operating Risks

Finance

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

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

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. No trading in financial instruments has been undertaken. Further information on our treasury arrangements are set out in note 17.

Risk Management

Risk Management is a fundamental part of how we have controlled the development of Lok'nStore since its formation. We maintain a risk register which 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 Company and their likely impact. This is a continuing and evolving process as we continually review and monitor the underlying risk elements relevant to the business.

Market Risk

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

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

We have a large customer base spread across our 20 stores including those who have used Lok'nStore regularly over the years. Many of these periodically return as their circumstances and their storage needs change. Our customers are a broad mix of both domestic and business, generating around 60%:40% respectively of our revenue.

Property Risk

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

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

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

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

Credit Risk

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

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

Corporate Social Responsibility and Employee Risk
The Corporate Social Responsibility and Employee Risk within the business are discussed within the Operating Review on pages 8 to 11.

Reputational Risk
Lok'nStore's business reputation is very important to us. 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 website (www.loknstore.co.uk) is an important avenue of communication and a source of information for employees, customers and investors. Employee communication is augmented by regular staff newsletters.

Dividend
In respect of the current year, the Directors propose that a final dividend of 0.67 pence per share will be paid to the shareholders on 17 December 2008 to shareholders on the register on 21 November 2008. The total estimated dividend to be paid is £167,446 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

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

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

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

Biographical details of the Directors are set out on page 19.

Reappointment of Directors
In accordance with the Company's Articles of Association, Andrew Jacobs, Simon Thomas and Richard Holmes retire by rotation and, all being eligible, offer themselves for re-election at the next Annual General Meeting.

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

	Ordinary Shares of 1 pence each	
	31 July 2008	31 July 2007
A Jacobs	**5,314,000**	5,314,000
SG Thomas	**2,187,500**	2,187,500
RA Davies	**30,000**	30,000
RJ Holmes	**134,000**	110,000
CM Jacobs	**–**	–
RW Jackson	**–**	–
E Luker	**13,800**	13,800
C Peal	**75,000**	75,000

Additionally, Andrew Jacobs and Simon Thomas are two of the three beneficiaries of a pension fund that holds 460,425 Lok'nStore Ordinary Shares.

The Aylestone Pension Fund has a holding of 20,000 (31 July 2007: 20,000) Ordinary Shares representing less than 0.1% of the issued share capital. Colin Jacobs, a Director of Lok'nStore is interested in this transaction as one of the beneficiaries of the Aylestone Pension Fund.

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

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

Substantial Shareholdings
The Directors have been notified or are aware that the following are interested in 3% or more of the issued Ordinary Share capital of the Company as at 22 October 2008:

	Current rank	Number of shares	% at 22/10/08	Total shares in issue (excluding treasury shares)
Andrew Jacobs	1	5,314,000	20.74	
Audley Capital	2	4,262,500	16.64	
Simon Thomas	3	2,187,500	8.54	
Town Centre Securities	4	1,329,941	5.19	
Charles Stanley, Stockbrokers	5	1,317,654	5.14	
Montanaro Investment Managers	6	1,251,000	4.88	
Close Investments	7	885,212	3.46	
BlackRock Investment Management	8	858,859	3.35	
		17,406,666	67.94	25,616,865

Directors' Report continued

Policy on Payment of Creditors

The Company does not follow any formal code or standard on payment practice. The Company's policy, which is also applied by the Group, is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment practice, whereby all outstanding trade accounts are settled within the terms agreed with the supplier at the time of the supply or otherwise 30 days from invoice date.

At the year-end the credit taken from suppliers by the Group was 36 days (2007: 23 days).

Market Valuation of Freehold Land and Buildings

The changes in tangible assets during the year and details of property valuations at 31 July 2008 are shown in note 11 to the Financial Statements. Further commentary on property portfolio is contained in the Property Review and in the Financial Review.

On 31 July 2008, professional valuations were prepared by external valuers, Cushman & Wakefield (C&W), in respect of eleven freehold and seven leasehold properties. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards, 6th Edition published by The Royal Institution of Chartered Surveyors ('the Red Book'). The valuations were prepared on the basis of Market Value or Market Value as a fully equipped operational entity, having regard to trading potential, as appropriate. These valuations in so far as they relate to freehold properties have been included in the Balance Sheet (see note 11).

Environment

Environmental Policy

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

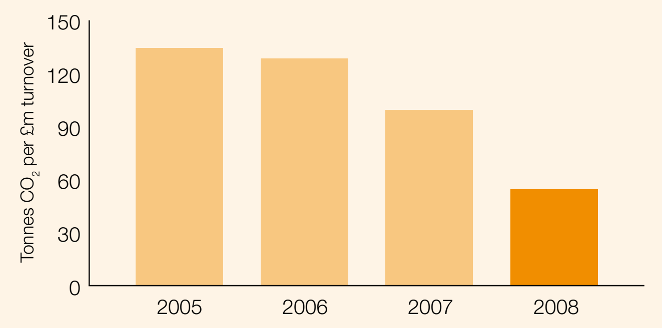
Environmental Management and Performance

For the fourth consecutive year, Lok'nStore has measured its environmental key performance indicators (KPIs), namely carbon dioxide emissions, water use and waste. We are pleased to report that this year we achieved absolute reductions in all three of our KPIs. Most significantly, our total absolute direct and indirect carbon dioxide emissions have decreased by 472 tonnes over the year: a 38.6% reduction overall and a 38.3% reduction normalised to turnover.

The main driver of Lok'nStore's improvement in carbon performance was reduced emissions from electricity consumption. Last year 74% of our electricity was supplied by Green Energy plc which acquires 20% of its supply from renewable sources and the remaining 80% from combined heat and power (CHP) accredited generators. This means that 15% of our electricity was generated by renewable energy.

Figure 1 shows consistent decrease in carbon dioxide emissions from electricity consumption normalised to turnover over the last four years.

Figure 1. Carbon dioxide emissions from electricity consumption, tonnes per £1 million of turnover



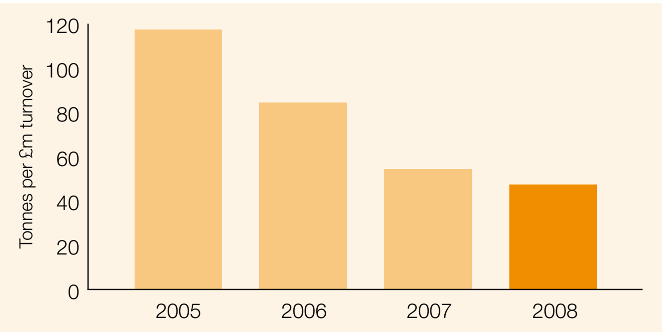
The level of direct emissions from gas boilers has been influenced by the closure of older energy-inefficient stores.

This year we are reporting carbon dioxide emissions from vehicle fuel used by Lok'nStore separately from the vehicle fuel purchased by our customers and used in the van hire fleet. We have therefore restated the vehicle fuel emissions figure for last year in order to make it consistent and comparable with 2008 data.

There is a slight rise in direct emissions from vehicle fuel use in 2008. Increased vehicle use by Lok'nStore staff is a function of additional employee training as more employees travel to our Head Office in Farnborough. The increase in downstream emissions by customers for van hire is due to the significant expansion in the number of vehicles in the fleet in 2008. It is planned to offer the hire van service at all stores in future.

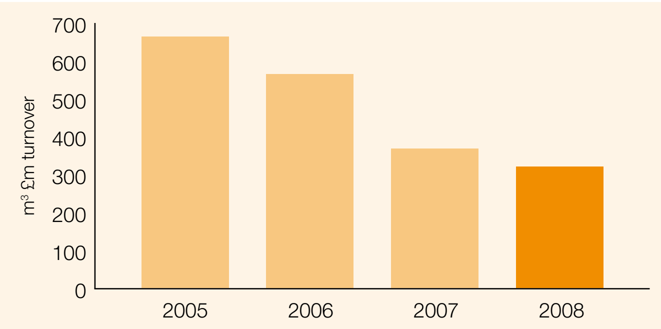
In line with the Company's waste management strategy, all of our stores were audited last year. We have reduced the number of bins for waste sent for disposal and replaced them with recycling bins. As a result in 2008 the amount of waste sent for disposal reduced by 79 tonnes, which is a 13% reduction normalised to turnover. We also monitor hazardous (sanitary) waste, but the amount is negligible.

Figure 2. Waste sent for disposal, tonnes per £1 million of turnover



We have also consistently reduced our water use over the last four years. In 2008 we consumed 3,402 m^3 of water, which is 513 m^3 less than in the previous year and it amounts to a 13% reduction when normalised to turnover.

Figure 3. Water use, m^3 per £1 million of turnover



Environmental Key Performance Indicators (for period covering Financial Year 2008)
Direct Impacts (Operational)

Greenhouse gases	Definition	Data source and calculation methods	Quantity: Absolute Tonnes CO_2 2007	Quantity: Absolute Tonnes CO_2 2008	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2007	Quantity: Normalised* Tonnes CO_2 Per £m Turnover 2008
Gas	Emissions from utility boilers.	Yearly consumption in kWh collected from fuel bills, converted according to Defra Guidelines.	79	55	7	5
Vehicle Fuel	Petrol and diesel used by staff.	Expense claims & MOT recorded mileage, converted according to Defra Guidelines.	62**	71	6**	7
Total			141	126	13	12

Waste	Definition	Data source and calculation methods	Quantity: Absolute Tonnes 2007	Quantity: Absolute Tonnes 2008	Quantity: Normalised* Tonnes Per £m Turnover 2007	Quantity: Normalised* Tonnes Per £m Turnover 2008
Landfill	General office waste, which includes a mixture of paper, card, wood, plastics and metals.	Volume of waste generated per annum, calculated by recording the number of bins & skips removed, converted to tonnes according to Defra Guidelines.	576	497	54	47
Recycled	General office waste recycled, primarily cardboard, and fluorescent lights.	Volume of waste recycled per annum, calculated by recording the number of bins & skips removed for recycling, converted to tonnes according to Defra Guidelines.	361	239	34	23

Directors' Report continued

Indirect Impacts (Supply Chain)

Greenhouse gases	Definition	Data source and calculation methods	Quantity: Absolute Tonnes CO_2 2007	Absolute Tonnes CO_2 2008	Normalised* Tonnes CO_2 Per £m Turnover 2007	Normalised* Tonnes CO_2 Per £m Turnover 2008
Energy use	Directly purchased electricity, which generates Greenhouse gases including CO_2 emissions.	Yearly consumption of directly purchased electricity in kWh collected, converted according to Defra Guidelines.	1,053	578	99	54

Water	Definition	Data source and calculation methods	Quantity: Absolute m^3 2007	Absolute m^3 2008	Normalised* m^3 Per £m Turnover 2007	Normalised* m^3 Per £m Turnover 2008
Supplied water	Consumption of piped water. No water directly abstracted by the Group.	Yearly consumption of purchased water.	3,915	3,402	367	320

* Normalised based on annual revenue for the respective years.
** 2007 figures for vehicle fuel were restated to separate greenhouse gas emissions from fuel purchased by Lok'nStore customers.

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

Health and Safety

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

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

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

Share Capital

Further details are given in the Financial Review and in note 20. The Company purchased 1,142,000 of its own shares in the year. Further details are given in note 26.

Statement of Disclosure of Information to Auditors

The Directors who were in office at the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Annual General Meeting

The Company's Annual General Meeting will be held on 12 December 2008 at 11.00 am at the offices of Maclay Murray Spens, One London Wall, London EC2Y 5AB.

Auditor

A resolution to reappoint Baker Tilly UK Audit LLP, Chartered Accountants, as auditor will be put to the members at the Annual General Meeting.

A formal notice together with explanatory circular and Form of Proxy will be sent to shareholders.

On behalf of the Board

Simon G Thomas
Chairman
6 November 2008

Corporate Governance

Introduction
The Combined Code is intended to promote the principles of openness, integrity and accountability. The Company and Board fully support these principles. However, in view of the size and nature of the Group, the Directors have taken into consideration the recommendations of the Guidance for Smaller Quoted Companies on the Code produced by the Quoted Companies Alliance and applied these principles that they consider relevant to the Group.

Narrative Statement
Directors
There is a Board of Directors, which is set up to control the Company and consists of four Executive and four Non-Executive Directors. The Board considers all of the Non-Executive Directors to be independent of the Group. SG Thomas is Chairman of the Board and it has a formal schedule of matters reserved for its consideration and decision. This schedule includes approval of financial strategy, major investments, review of performance, monitoring risk, ensuring adequate capital resources are available and reporting to shareholders. The full Board meets every three months to discuss a range of significant matters including strategic decisions, major acquisitions and Group performance. A procedure to enable Directors to take independent professional advice if required has been agreed by the Board and formally confirmed by all Directors.

Each Board meeting receives the latest financial information available, which consists of detailed management accounts with the relevant comparisons to budget. A current trading appraisal is given by the Executive Directors.

Each member of the Board is subject to the re-election provisions of the Articles of Association, which requires them to offer themselves for re-election at least once every three years. In the event of a proposal to appoint a new Director, this would be discussed at a full Board meeting with each member being given the opportunity to meet the individual concerned prior to any formal decision being taken.

Directors' Remuneration
The Remuneration Committee consists of RJ Holmes (Chairman of the Committee) and E Luker. The Committee meets and considers, within existing terms of reference, the remuneration policy and makes recommendations to the Board for each Executive Director. The Committee's remuneration policy aims to design a package that will align the interests of Executive Directors and those of shareholders. The Executive Directors' remuneration consists of a package of basic salary, bonuses and share options, which are linked to corporate achievements and these levels are determined by the Remuneration Committee. The details of each Director's remuneration are set out in note 6 in the notes to the Financial Statements.

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

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

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

The Chairman's Statement contains a detailed consideration of the Group's position and prospects.

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

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

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

The Group has a whistleblowing procedure within its staff handbook, which is issued to all staff. All employees may raise concerns about malpractice or improper or potentially illegal behaviour in confidence without concern of victimisation or disciplinary action.

Corporate Governance continued

Going Concern

The Directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on undrawn committed facilities at 31 July 2008 of £14.6 million and cash generated from operations in the year to 31 July 2008 of £1.4 million. The accounts are therefore prepared on a going concern basis.

Audit Committee

The Company has an established Audit Committee, to whom the external auditor, Baker Tilly Audit UK LLP, report. The Committee consists of RW Jackson (Chairman of the Committee) and C Peal. It is responsible for the relationship with the Group's external auditors and the review of the Group's financial reporting and the Group's internal controls.

The Committee meets a minimum of twice a year, prior to the announcement of interim and annual results and, should it be necessary, would convene at other times.

The Audit Committee also undertakes a formal assessment of the auditor's independence each year, which includes:

- a review of non-audit services provided to the Group and related fees;
- discussion with the auditor of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner every five years; and
- obtaining written confirmation from the auditor that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in note 5 to the financial statements.

The Company is satisfied that the external auditor remains independent in the discharge of their audit responsibilities.

The Board supports the highest standards in corporate governance, appropriate to its size, and continues to consider the Combined Code on Corporate Governance (June 2006) as well as the Company's procedures to maintain proper control and accountability. In common with many small companies, a nomination committee has not been established and appointments to the Board are decided on by the Board as a whole. The Chairman is not independent, as he is a substantial shareholder of the Company and was formerly the Chief Executive.

On behalf of the Board

Simon G Thomas
Chairman
6 November 2008

Directors' Responsibilities in the Preparation of Financial Statements

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

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

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the Lok'nStore Group Plc website.

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

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

We have audited the Group and parent company financial statements which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Shareholders' Equity, and the related notes.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ('EU') are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Review, Chief Executive's Operating Review, Property Review, Financial Review and the Highlights that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Operating Review, the Property Review, the Financial Review, the Highlights and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's affairs as at 31 July 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 July 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

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

6 November 2008

Consolidated Income Statement
For the year ended 31 July 2008

	Notes	Year ended 31 July 2008 £	Year ended 31 July 2007 £
Continuing operations			
Revenue	1	**10,827,064**	10,665,532
Cost of sales	2a	**(298,089)**	(328,216)
Gross profit		**10,528,975**	10,337,316
Administrative expenses	2b	**(7,796,343)**	(7,433,920)
EBITDA*		**2,732,632**	2,903,396
Depreciation based on historic cost		**(1,210,502)**	(1,057,228)
Additional depreciation based on revalued assets		**(231,692)**	(235,307)
	5	**(1,442,194)**	(1,292,535)
Impairment of goodwill	5	**(310,559)**	(24,254)
Share based payments	21	**(317,146)**	(275,572)
		(2,069,899)	(1,592,361)
Operating profit*		**662,733**	1,311,035
Costs of relocation of Portsmouth store	2c	**(125,814)**	–
Profit on sale of properties		**–**	605,263
Profit on sale of motor vehicle		**563**	–
		(125,251)	605,263
Profit before interest		**537,482**	1,916,298
Finance income	3	**329,659**	147,461
Finance cost	4	**(1,608,587)**	(1,113,201)
(Loss)/profit before taxation		**(741,446)**	950,558
Income tax expense	7	**(98,201)**	(315,149)
(Loss)/profit for the financial year attributable to equity shareholders	26	**(839,647)**	635,409
(Loss)/earnings per share			
Basic	9	**(3.21p)**	2.5p
Fully diluted	9	**(3.21p)**	2.4p

*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 2008

	Share capital £	Share premium £	Other reserves £	Revaluation reserve £	Retained earnings £	Total £
1 August 2006	**250,911**	**66,776**	**12,444,403**	**27,637,607**	**(1,956,079)**	**38,443,618**
Effect of change in tax rate	–	–	–	579,513	–	579,513
Increase in asset valuation	–	–	–	13,591,025	–	13,591,025
Current tax recognised in equity	–	–	–	–	128,583	128,583
Deferred tax recognised in equity	–	–	–	(3,494,314)	131,323	(3,362,991)
Income and expense recognised directly in equity	–	–	–	10,676,224	259,906	10,936,130
Profit for the year	–	–	–	–	635,409	635,409
Total recognised income and expense	–	–	–	10,676,224	895,315	11,571,539
Transfer	–	–	–	(7,207,130)	7,207,130	–
Share based remuneration	–	–	275,572	–	–	275,572
Exercise of share options	16,403	600,955	–	–	–	617,358
31 July 2007	**267,314**	**667,731**	**12,719,975**	**31,106,701**	**6,146,366**	**50,908,087**
Decrease in asset valuation	–	–	–	(7,677,505)	–	(7,677,505)
Deferred tax recognised in equity	–	–	–	2,355,296	162,880	2,518,176
Income and expense recognised directly in equity	–	–	–	(5,322,209)	162,880	(5,159,329)
Loss for the year	–	–	–	–	(839,647)	(839,647)
Total recognised income and expense	–	–	–	(5,322,209)	(676,767)	(5,998,976)
Transfer	–	–	–	(166,818)	166,818	–
Share based remuneration	–	–	317,146	–	–	317,146
Exercise of share options	275	30,313	–	–	–	30,588
Purchase of shares for treasury	–	–	–	–	(2,092,902)	(2,092,902)
Movement on EBT (ESOP)	–	–	–	–	3,970	3,970
Dividend paid	–	–	–	–	(257,247)	(257,247)
31 July 2008	**267,589**	**698,044**	**13,037,121**	**25,617,674**	**3,290,238**	**42,910,666**

Company Statement of Changes in Equity
For the year ended 31 July 2008

	Share capital £	Share premium £	Other reserves £	Total £
1 August 2006	**250,911**	**66,776**	**6,149,108**	**6,466,795**
Exercise of share options	16,403	600,955	–	617,358
Share based remuneration (options)	–	–	275,572	275,572
31 July 2007	**267,314**	**667,731**	**6,424,680**	**7,359,725**
Exercise of share options	275	30,313	–	30,588
Share based remuneration (options)	–	–	317,146	317,146
31 July 2008	**267,589**	**698,044**	**6,741,826**	**7,707,459**

Balance Sheets
31 July 2008

	Notes	Group 31 July 2008 £	Group 31 July 2007 £	Company 31 July 2008 £	Company 31 July 2007 £
Non-current assets					
Goodwill	10	–	310,559	–	–
Property, plant and equipment	11	80,950,612	75,753,603	–	–
Investments	12	–	–	1,019,182	702,036
		80,950,612	76,064,162	1,019,182	702,036
Current assets					
Inventories	13	92,712	74,544	–	–
Trade and other receivables	14	2,291,420	5,924,750	6,688,277	6,657,689
Cash and cash equivalents		2,480,826	5,189,134	–	–
		4,864,958	11,188,428	6,688,277	6,657,689
Total assets		85,815,570	87,252,590	7,707,459	7,359,725
Current liabilities					
Trade and other payables	15	(5,077,541)	(5,935,171)	–	–
Provisions	16	(84,664)	(65,082)	–	–
		(5,162,205)	(6,000,253)	–	–
Non-current liabilities					
Bank borrowings	18	(25,311,225)	(15,492,606)	–	–
Deferred tax	19	(12,431,474)	(14,851,644)	–	–
		(37,742,699)	(30,344,250)	–	–
Total liabilities		(42,904,904)	(36,344,503)	–	–
Net assets		42,910,666	50,908,087	7,707,459	7,359,725
Equity					
Called up share capital	20	267,589	267,314	267,589	267,314
Share premium		698,044	667,731	698,044	667,731
Other reserves	25	13,037,121	12,719,975	6,741,826	6,424,680
Retained earnings	26	3,290,238	6,146,366	–	–
Revaluation reserve		25,617,674	31,106,701	–	–
Total equity attributable to equity holders of the parent		42,910,666	50,908,087	7,707,459	7,359,725

Approved by the Board of Directors and authorised for issue on 6 November 2008 and signed on its behalf by:

A Jacobs
Chief Executive

R Davies
Finance Director

Cash Flow Statements
For the year ended 31 July 2008

	Notes	Group Year ended 31 July 2008 £	Group Year ended 31 July 2007 £
Operating activities			
Cash generated from operations	28	**1,397,710**	5,001,126
Income tax paid		**(195)**	–
Net cash from operating activities		**1,397,515**	5,001,126
Investing activities			
Purchase of property, plant and equipment		**(14,318,171)**	(10,262,286)
Sale of property, plant and equipment		**4,002,025**	8,324,768
Interest received		**329,659**	147,461
Net cash used in investing activities		**(9,986,487)**	(1,790,057)
Financing activities			
Issue of new ordinary shares		**30,588**	617,357
Increase in borrowings – bank loans		**9,818,619**	1,425,804
Interest paid		**(1,626,682)**	(987,024)
Purchase of shares for treasury		**(2,084,614)**	–
Equity dividends paid		**(257,247)**	–
Net cash from financing activities		**5,880,664**	1,056,137
Net (decrease)/increase in cash and cash equivalents in the period		**(2,708,308)**	4,267,206
Cash and cash equivalents at beginning of the period		**5,189,134**	921,928
Cash and cash equivalents at end of the period		**2,480,826**	5,189,134

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

Accounting Policies

General information

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

Significant accounting policies

Basis of accounting

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union and comply with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. Statutory accounts for the year ended 31 July 2007 were prepared under UK GAAP. The disclosures required by the IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 33 which includes an analysis of how the balance sheet, income statements and cash flow statements prepared under UK GAAP have changed under IFRS. Comparative figures for the year ended 31 July 2007 have been restated to conform to the IFRS accounting policies.

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 2007.

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

Adoption of new and revised standards

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosure which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 17). IFRIC 10 Interim Financial Reporting and Impairment issued by the International Financial Reporting Interpretations Committee are effective for the current period but has not led to any changes in the Group's accounting policies. IFRIC 11 IFRS2: Group and Treasury Share Transactions was adopted on transition.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:
IFRS 8 Operating segments;
Amendment to IFRS2 Share-based payment relating to vesting conditions and cancellations;
Comprehensive revision and amendments to IAS1 Presentation of Financial Statements including requiring a statement of comprehensive income, amendments relating to disclosure of puttable instruments and obligations arising on liquidation and resulting from May 2008 Annual Improvements to IFRSs;
Amendments to IAS16 Property, Plant and Equipment resulting from May 2008 Annual Improvements to IFRSs;
Amendments to IAS19 Employee Benefits resulting from May 2008 Annual Improvement to IFRSs;
Amendments to IAS36 Impairment of Assets resulting from May 2008 Annual Improvement to IFRSs;
Amendments to IAS38 Intangible Assets resulting from May 2008 Annual Improvement to IFRSs;
Amendment to IFRS1 First-time Adoption of International Financial Reporting Standards relating to cost of an investment on first-time adoption;
Comprehensive revision to IFRS3 Business Combinations on applying the acquisition method;
Amendments to IFRS5 Non-current Assets Held for Sale and Discontinued Operations resulting from May 2008 Annual Improvements to IFRSs;
Amendments to IAS20 Government Grants and Disclosure of Government Assistance resulting from May 2008 Annual Improvements to IFRSs;
Amendments to IAS27 Consolidated and Separate Financial Statements relating to cost of an investment on first-time adoption and resulting from May 2008 Annual Improvements to IFRSs and amendments to IFRS3;
Amendments to IAS28 Investments in Associates and IAS 31 Interests in Joint Ventures resulting from May 2008 Annual Improvements to IFRSs and amendments to IFRS3;
Amendment to IAS32 Financial Instruments: Presentation relating to puttable instruments and obligations arising on liquidation;
Amendments to IAS39 Financial Instruments: Recognition and Measurement for eligible hedged items and resulting from May 2008 Annual Improvement to IFRSs;
Amendments to IAS40 Investment Property resulting from May 2008 Annual Improvement to IFRSs;
Amendments to IAS41 Agriculture resulting from May 2008 Annual Improvement to IFRSs;
Reclassification of Financial Assets Amendments to IAS39 Financial Instruments: Recognition and Measurement and IFRS7 Financial Instruments: Disclosures;
IFRIC12 Service Concession Arrangements;
IFRIC13 Customer Loyalty Programmes;
IFRIC14 IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
IFRIC15 Agreements for the Construction of Real Estate; and
IFRIC16 Hedges of a Net Investment in a Foreign Operation.

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.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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

Basis of consolidation
The consolidated financial statements incorporate those of Lok'nStore Group plc and all of its subsidiary undertakings for the year ended 31 July 2008. Subsidiaries are consolidated from the date that control passes and will continue to be consolidated until the date that such control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies continued

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

Short leasehold stores remain as operating leases under IFRS. Leasehold improvements together with all of their related fit-out costs are carried at cost less accumulated depreciation in the balance sheet. The value of stores held under short operating leases in the July 2008 valuation was £11.57 million (2007: £9.44 million).

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

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

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

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

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

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

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

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units, and goodwill is allocated to these units. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Impairment losses in relation to goodwill are recognised immediately in the income statement and are not reversed in the subsequent period.

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

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

Leased assets and obligations
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the income statement in proportion to the remaining balance outstanding.

All other leases are 'operating leases' and the annual rentals are charged to the income statement on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

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

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

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

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

Employee Benefit Trust
The Group operates an employment benefit trust and has de facto control of the shares held by the trust and bears their benefits and risks. The Group records certain assets and liabilities of the trust as its own. Finance costs and administrative expenses are charged as they accrue.

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

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

a) Estimate of fair value of trading properties
The Group values its self-storage stores using a discounted cash flow methodology which is based on projections of net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels; expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in note 11 to the accounts. The carrying value of properties held at valuation at the balance sheet date was £60.5 million (2007: £66.3 million).

Market Uncertainty
Since the middle of September financial markets have been exceptionally volatile in response to concerns over the solvency and credit worthiness of a number of major banks and financial institutions and the wider consequences for the global financial system and economy.

Under these conditions many investment decisions have been put on hold or deferred. In view of the already reduced volume of transactions in the property investment market in the year to date, these latest developments only serve to increase the degree of uncertainty that must attach to any opinion of value given at the present time.

Cushman & Wakefield (C&W) have valued the properties on the basis of market evidence available as at the date of valuation, although there has been a greatly reduced number of property transactions recently and much relates to transactions completed before the full extent of the current banking crisis manifested itself.

Accounting Policies continued

C&W report that in relation to the self-storage sector specifically, there have been no significant transactions in 2008 other than the sale of a 51% stake in Shurgard Europe which was announced in January 2008 and completed on 31 March 2008. C&W also believe that due to the current hiatus in the financial markets, it is likely that there will be continued abnormal volatility in the global economy with unpredictable consequences for the UK real estate market. They have therefore endeavoured to reflect market sentiment as at the date of their valuation.

In order to provide a rational opinion of value at the present time it is necessary to assume that the property market will continue to trade in an orderly fashion. In this regard C&W confirm that they are having to exercise a greater degree of judgment than is usual in a more active market. As a result, there is greater uncertainty attached to their opinion of value than during normal market conditions.

The Board concur with this view.

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

The Group's development property assets are held in the balance sheet at historic cost and are not valued externally. In acquiring sites for redevelopment into self-storage facilities, the Group estimates and makes judgements on the potential net lettable storage space that it can achieve in its planning negotiations, together with the time it will take to achieve maturity occupancy level. In addition, assumptions are made on the storage rent that can be achieved at the store by comparing with other stores within the portfolio and within the local area. These judgements taken together with estimates of operating costs and the projected construction cost, allow the Group to calculate the potential net operating income at maturity, projected returns on capital invested and hence to support the purchase price of the site at acquisition. Following the acquisition, regular reviews are carried out taking into account the status of the planning negotiations, revised construction costs or capacity of the new facility, for example, to make an assessment of the carrying value of the development property at historic cost. Once a store is opened, then it is valued as a trading store in the Group's balance sheet. The carrying value of development property assets at the balance sheet date was £14.4 million (2007: £4.6 million). The Group reviews all development property assets for impairment at each balance sheet date.

c) Goodwill impairment

A number of estimates and judgements are made in the annual impairment review as detailed further in note 10. The carrying value of goodwill previously held in the balance sheet of £310,559 (2007: £310,559) was fully written off following an impairment review.

d) Dilapidations

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

The carrying value of the provision for dilapidations at the balance sheet date was £84,664 (2007: £65,082).

Notes to the Financial Statements
For the year ended 31 July 2008

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

	2008 £	2007 £
Stores trading		
Self-storage income	**9,854,216**	9,775,849
Other storage related income	**793,343**	828,123
Store rental income	**5,218**	5,218
Management fees	**21,374**	3,403
Sub-Total	**10,674,151**	10,612,593
Stores under development		
Non-storage income	**152,913**	52,939
Total revenue	**10,827,064**	10,665,532

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

	2008 £	2007 £
Retail	**190,377**	211,852
Insurance	**66,021**	84,376
Van Hire	**41,691**	31,988
	298,089	328,216

2b Administrative expenses

	2008 £	2007 £
Property/premises costs	**3,201,190**	3,109,126
Staff costs	**3,068,866**	3,029,591
General overheads	**1,526,287**	1,295,203
	7,796,343	7,433,920

2c Store relocation costs
During the year the Group closed its leasehold store in Portsmouth and at its own cost moved its existing customers into its new freehold store.

	2008 £	2007 £
Costs of relocating customers to new Portsmouth store	**125,814**	–

3 Finance income

	2008 £	2007 £
Bank interest	**185,335**	97,979
Other interest	**144,324**	49,482
	329,659	147,461

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

4 Finance costs

	2008 £	2007 £
Bank loan interest	**1,608,587**	1,113,201

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

5 (Loss)/profit on ordinary activities before taxation

	2008 £	2007 £
(Loss)/profit before taxation is stated after charging:		
Depreciation and amounts written off property, plant and equipment:		
– owned assets	**1,442,194**	1,292,535
Impairment of goodwill	**310,559**	24,254
Operating lease rentals:		
– land and buildings	**1,421,888**	1,334,780

	2008 £	2007 £
Amounts payable to Baker Tilly UK Audit LLP and their associates for audit and non-audit services		
Audit services		
– statutory audit of parent and consolidated accounts	**45,000**	39,000
– further audit services-IFRS transition	**20,000**	–
Other services		
The auditing of accounts of associates of the Company pursuant to legislation		
– audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP or its associates	**6,250**	–
Other services supplied pursuant to such legislation		
– interim review	**35,000**	10,000
Tax services		
– compliance services	**11,952**	10,210
– advisory services	**24,395**	43,860
Other services		
– work in respect of Company Share Incentive Plan (SIP)/Directors' remuneration	**11,348**	17,500
– work in respect of share buyback/return of capital to shareholders	**–**	750
	153,945	121,320

6 Employees

	2008 No.	2007 No.
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Store management	**85**	92
Administration	**18**	19
	103	111

	2008 £	2007 £
Costs for the above persons:		
Wages and salaries	**2,631,327**	2,781,864
Social security costs	**228,212**	219,612
Pension costs	**26,540**	22,469
	2,886,079	3,023,945
Share-based remuneration	**317,146**	275,572
	3,203,225	3,299,517

Share-based remuneration is separately disclosed in the income statement. Wages and salaries of £110,804 (2007: £161,447) have been capitalised as additions to property, plant and equipment as they are directly attributable to the acquisition of these assets. All other employee costs are included in administrative expenses in the income statement.

In relation to pension contributions, there was £3,331 (2007: £3,935) outstanding at the year-end.

6 Employees continued

Directors' Remuneration

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

2007	Emoluments £	Bonuses £	Benefits £	Sub total £	Gains on share options £	Total £
Executive						
A Jacobs	200,000	40,975	2,133	243,108	1,429,888	1,672,996
SG Thomas	50,000	40,975	1,799	92,774	714,944	807,718
RA Davies	100,000	12,500	1,251	113,751	–	113,751
CM Jacobs	52,500	12,500	1,832	66,832	187,200	254,032
Non-Executive						
RJ Holmes	17,692	–	–	17,692	–	17,692
RW Jackson	17,692	–	–	17,692	–	17,692
MJG Stanton	1,250	–	–	1,250	–	1,250
E Luker	13,462	–	–	13,462	–	13,462
C Peal	10,769	–	–	10,769	–	10,769
	463,365	106,950	7,015	577,330	2,332,032	2,909,362

* During the year services totalling £289,203 (2007: £289,203) were provided by Value Added Services Limited (VAS), a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The amount paid to Value Added Services Limited which is directly attributable to Andrew Jacobs and Simon Thomas is shown in the Directors' emoluments table above. Additional performance bonuses of £25,000 (2007: £81,950) were paid to VAS which is directly attributable equally to Andrew Jacobs and Simon Thomas. This is also shown in the Directors' emoluments table above. See note 31 on 'Related Party Transactions' for further information.

** £7,500 of the £15,000 bonus (2007: £7,500 of the £12,500 bonus) attributed to RA Davies was paid to Davies-Elise Consulting Limited, a company owned by RA Davies.

*** £6,000 of the £17,500 bonus (2007: £nil) attributed to CM Jacobs was paid to Aylestone Enterprises Limited, a company in which CM Jacobs has a beneficial interest.

Pension contributions of £3,233 (2007: £3,000) were paid by the Company on behalf of RA Davies. The highest paid Director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the Directors.

The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is one (2007: one).

7 Taxation

	2008 £	2007 £
Income Tax Expense		
Current tax:		
UK corporation tax at 30% (2007: 30%)	–	128,583
Adjustments in respect of prior periods	195	–
Total current tax	195	128,583
Deferred tax:		
Origination and reversal of temporary differences	98,006	223,479
Adjustments in respect of prior periods	–	(36,913)
Total deferred tax	98,006	186,566
Income tax expense for the year	98,201	315,149

Notes to the Financial Statements continued
For the year ended 31 July 2008

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

	2008 £	2007 £
(Loss)/profit before tax	**(741,446)**	950,558
Tax on ordinary activities at the standard rate of corporation tax in the UK of 30% (2007: 30%)	**(222,434)**	285,167
Expenses not deductible for tax purposes	**183,837**	90,948
IFRS 2 charge not recognised in deferred tax	**95,144**	–
Amount not recognised in deferred tax	**41,459**	–
Differences between accounting profit on disposal and taxable gain	**–**	(60,966)
Adjustments in respect of prior periods	**195**	–
Income tax expense for the year	**98,201**	315,149
Effective tax rate	**(13%)**	33%

A tax charge has arisen in the year due to certain expenses which are not deductible for tax purposes and the adjustment described below in relation to the Founder Share Options. Non deductible expenses consist mainly of depreciation charges on the Group's properties which do not qualify for tax allowances and the impairment of goodwill.

In the Group's 2007 tax computations a significant tax deduction arose in respect of the exercise of Founder Share Options. The Group has taken advantage of the exemption available in IFRS 2 – Share Based Payments, to exclude share options granted before November 2002. There has therefore not been a share-based remuneration expense in the income statement in respect of the Founder Share Options. Under IAS 12 the tax effects of these options must be recognised directly in equity. At 31 July 2007 a deferred tax asset was recognised in respect of the tax relief for the options in the sum of £259,906 and the credit for this has been recognised directly in equity. At 31 July 2008 a further deferred tax asset of £162,880 has been recognised directly in equity.

A current tax charge arose in 2007 to the extent that this tax deduction was offset against taxable profits arising in the year ended 31 July 2007. There was no actual UK corporation tax liability due to the availability of losses carried forward. The corresponding current tax credit has been recognised in equity.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties amounting to £2,149,702 (2007: £3,494,314 debit) and deferred tax of £205,594 (2007: £nil) in respect of rolled over gains have been charged directly to equity (refer note 19 – deferred tax).

As a result of the change in UK Corporation Tax rates which was effective from 1 April 2008, deferred tax balances have been remeasured at the tax rate of 28% as this is the rate that will apply when the temporary differences are expected to reverse. See note 19 for further details of deferred tax.

8 Dividends

	2008 £	2007 £
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the six months to 31 January 2008 of 0.33 pence per share (2007: nil)	**86,783**	–
Final dividend for the year ended 31 July 2007 of 0.67 pence per share (2006: nil)	**170,464**	–
	257,247	–

In respect of the current year, the Directors propose that a final dividend of 0.67 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £167,446 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 19 November 2008; the record date 21 November 2008; with an intended payment date of 17 December 2008.

9 Earnings per Share

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

	2008 £	2007 £
(Loss)/profit for the financial year	(839,647)	635,409

	2008 No. of shares	2007 No. of shares
Weighted average number of shares		
For basic earnings per share	26,122,173	25,670,204
Dilutive effect of share options	314,232	542,990
For diluted earnings per share	26,436,405	26,213,194

	2008 £	2007 £
(Loss)/earnings per share		
Basic	(3.21p)	2.5p
Diluted	(3.21p)	2.4p

There is no dilutive effect of the options in 2008 due to the loss arising in the year.

10 Intangible Assets – Goodwill

Group	Purchased goodwill £
Cost	
1 August 2006, 31 July 2007 and 31 July 2008	**334,813**
Impairment	
1 August 2006	–
Impairment-charge	24,254
31 July 2007	**24,254**
Impairment-charge	310,559
31 July 2008	**334,813**
Net book value	
31 July 2008	**–**
31 July 2007	310,559
1 August 2006	334,813

The goodwill is allocated to the Swindon West store as a cash-generating unit. The recoverable amount of the cash-generating unit has been determined using value in use calculations (see initial accounting estimates and judgements in accounting polices section). The Swindon West store remains an under-performing store relative to its peer group of stores over 250 weeks. Management has made an assessment of the carrying value of goodwill based on the likely cash flows generated by the Swindon West store over the next five years as recorded in the Groups detailed budgets and forecasts. As part of this assessment the Board have completed a valuation exercise by comparing the latest Cushman & Wakefield, ('CW') valuations achieved for a selection of its established stores (refer note 11 for valuation methodology including discount rates) and expressed this valuation as a multiple of those stores cash earnings at year nine and compared it to Swindon West cash earnings. It was determined that the carrying value of the goodwill can no longer be justified and accordingly has been written off.

11 Property, plant and equipment

Group	Land and buildings £	Short leasehold improvements at cost £	Fixtures, fittings and equipment at cost £	Motor vehicles at cost £	Total £
Cost or valuation					
1 August 2006	57,469,917	1,595,576	9,557,776	60,406	68,683,675
Additions	7,862,810	307,738	2,062,740	29,000	10,262,288
Disposals	(11,586,241)	–	(370,580)	–	(11,956,821)
Revaluations	13,220,940	–	–		13,220,940
31 July 2007	**66,967,426**	**1,903,314**	**11,249,936**	**89,406**	**80,210,082**
Depreciation					
1 August 2006	–	633,054	3,098,619	39,672	3,771,345
Depreciation	381,271	135,954	770,681	4,629	1,292,535
Disposals	(11,187)	–	(226,130)	–	(237,317)
Revaluations	(370,084)	–	–	–	(370,084)
31 July 2007	**–**	**769,008**	**3,643,170**	**44,301**	**4,456,479**
Net book value at 31 July 2007	**66,967,426**	**1,134,306**	**7,606,766**	**45,105**	**75,753,603**
Net book value at 1 August 2006	**57,469,917**	**962,522**	**6,459,157**	**20,734**	**64,912,330**
Cost or valuation					
1 August 2007	66,967,426	1,903,314	11,249,936	89,406	80,210,082
Additions	10,659,528	569,779	3,007,329	83,684	14,320,320
Transfers	–	(2,150)	–	–	(2,150)
Disposals	–	–	–	(5,745)	(5,745)
Revaluations	(8,058,809)	–	–	–	(8,058,809)
31 July 2008	**69,568,145**	**2,470,943**	**14,257,265**	**167,345**	**86,463,698**
Depreciation					
1 August 2007	–	769,008	3,643,170	44,301	4,456,479
Depreciation	381,304	164,683	886,691	9,516	1,442,194
Transfers	–	–	–	(4,283)	(4,283)
Revaluations	(381,304)	–	–	–	(381,304)
31 July 2008	–	933,691	4,529,861	49,534	5,513,086
Net book value at 31 July 2008	**69,568,145**	**1,537,252**	**9,727,404**	**117,811**	**80,950,612**

The carrying value of freehold and one long leasehold property includes development property assets (assets in course of construction) of £14.4 million (2007: £4.6 million) held at cost and £60.5 million (2007: £66.3 million) held at valuation.

The carrying value of land and buildings includes £2.61 million (2007: £nil) in relation to assets held under finance leases.

Had all assets been valued under the cost model, the carrying value of land and buildings would have been £39.6 million (2007: £27.7 million).

If all property, plant and equipment was stated at historic cost the carrying value would be £45.7 million (2007: £32.5 million).

The additions of £10.7 million to land and buildings include the acquisition of the Portsmouth North Harbour and Maidenhead sites and the development of the Portsmouth Central and Harlow sites.

The additions of £3.0 million to fixtures and fittings include fit-out at the Portsmouth Central and Harlow sites as well as the new leasehold store at Northampton Central. Fit-outs at existing stores included the enlargements of the existing Northampton and Fareham stores.

Property, plant and equipment with a carrying value of £80.8 million (2007: £75.7 million) is pledged as security for bank loans (see note 17).

11 Property, plant and equipment continued

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2008, a professional valuation was prepared by external valuers Cushman & Wakefield LLP (C&W) in respect of eleven freehold and seven leasehold properties. All of these leasehold properties are classified as operating leases and not revalued in the financial statements. The valuation was prepared in accordance with RICS Appraisal and Valuation Standards, 6th Edition, published by The Royal Institution of Chartered Surveyors ('the Red Book'). The valuations were prepared on the basis of Market Value or Market Value as a fully equipped operational entity having regard to trading potential as appropriate. The valuation has been 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 four 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 £72.1 million (2007: £75.7 million) of which £60.5 million (2007: £66.3 million) relates to freehold properties, and £11.6 million (2007: £9.4 million) relates to properties held under operating leases.

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

The valuation methodology explained in more detail below, is based on market value as fully equipped operational entities. The total valuation of trading properties has therefore been allocated by the Directors between freehold properties and the fixtures, fittings and equipment in the valued properties which are held at cost. Of the £60.5 million valuation of the freehold properties £4.7 million relates to the net book value of fixtures, fittings and equipment, and the remaining £55.8 million relates to freehold properties.

The 2008 valuation includes and reflects movements in value which have resulted from the operational performance of the stores and movements in the investment environment. In relation to the existing store at Reading, although it currently remains an operating self-storage facility, the site has been valued to reflect its residential development potential following the grant of planning permission for 112 apartments with associated car parking and landscaping. Additionally the freehold development land site in Reading situated opposite the existing store, which has the benefit of an appropriate planning consent for a self-storage facility, has been valued accordingly, and reflecting an additional uplift based on the assumption that a substantial number of the existing store's customers will transfer to the new store when built. The valuations do not account for any further investment in existing stores since July 2008.

Valuation Methodology

Background

The USA has over 40,000 self-storage facilities trading in a highly fragmented market with the largest five operators accounting for less than 20% of market share-based on net rentable square footage. The vast majority of stores are owned and managed individually or in small portfolios. These properties have a well established track record of being traded and are therefore considered as liquid property assets.

Many valuations of this asset class are undertaken by appraisers in the USA and the accepted valuation approach is to value the properties on the basis of market value as fully equipped operational entities, having regard to trading potential. This approach is recognised in the Red Book and is adopted for other categories of property that are normally bought and sold on the basis of their trading potential. Examples include hotels, licensed properties, marinas and petrol stations.

The UK self-storage sector differs from the USA in that the five larger groups control over 50% of the market by net rentable storage space. The scope for active trading of these property assets is therefore likely to be less, however there has been evidence of an increased number of transactions in 2007, albeit as corporate transactions rather than individual property sales but fewer in 2008 to date.

C&W believe that the valuation methodology adopted in the USA is also the most appropriate for the UK market.

Methodology

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

Freehold property

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

11 Property, plant and equipment continued

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. 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 16 trading stores (both freeholds and leaseholds) averages 77.71% (2007: 77.69%). The two Reading properties are excluded from the group of 18 stores. The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.
c. The capitalisation rates applied to existing and future net cash flow have been estimated by reference to underlying yields for industrial and retail warehouse property, bank base rates, 10-year money rates, inflation and the available evidence of transactions in the sector. On average for the 16 stores the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 4.77% (2007: 6.14%). This rises to 10.75% (2007: 9.95%) 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 11.37% (2007: 10.9%).
e. Purchaser's costs of 5.75% have been assumed initially and sale plus purchaser's costs totalling 7.75% are assumed on the notional sales in the 10th year in relation to the freehold stores.

The 2007 comparative figures are based on a group of 14 stores which excluded the existing Reading properties and Portsmouth.

Leasehold property

The same methodology has been used as for freehold property, except that no sale of the assets in the 10th year is assumed, but the discounted cash flow is extended to the expiry of the lease. The average unexpired term of the Group's operating leaseholds is approximately 12 years and four months as at 31 July 2008 (12 years and one month as at 31 July 2007).

Market Uncertainty

Cushman & Wakefield (C&W) have valued the properties on the basis of market evidence available as at the date of valuation, although there has been a greatly reduced trading volume recently and much relates to transactions completed before the full extent of the current banking crisis manifested itself.

These latest developments only serve to increase the degree of uncertainty that must attach to any opinion of value given at the present time. (Refer also to the note on critical accounting estimates and judgements in relation to fair value of trading properties on page 37).

12 Investments

Investment in subsidiary undertakings	£
Cost and net book value	
1 August 2006	**426,464**
Capital contributions arising from share-based payments	275,572
1 August 2007	**702,036**
Capital contributions arising from share-based payments	317,146
31 July 2008	**1,019,182**

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

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

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

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

13 Inventories

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Consumables and goods for resale	**92,712**	74,544	**–**	–

The amount of inventories recognised as an expense during the year was £190,377 (2007: £211,852).

14 Trade and other receivables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Trade receivables	**734,431**	768,833	**–**	–
Other receivables	**354,841**	4,084,169	**–**	–
Prepayments and accrued income	**1,202,148**	1,071,748	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**6,688,277**	6,657,689
	2,291,420	5,924,750	**6,688,277**	6,657,689

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

Trade receivables

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

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

Included in the Group's trade receivables balance are debtors with a carrying amount of £66,831 (2007: £72,174) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds a right of lien over the customers' goods if these debts are not paid. The average age of these receivables is 51 days past due (2007: 54 days past due).

Ageing of past due but not impaired receivables.

	Group 2008 £	Group 2007 £
0–30 days	**18,943**	13,493
30–60 days	**4,353**	4,636
60+ days	**43,535**	54,045
Total	**66,831**	72,174

Movement in the allowance for doubtful debts

	Group 2008 £	Group 2007 £
Balance at the beginning of the year	**59,132**	135,338
Impairment losses recognised	**44,647**	45,600
Amounts written off as uncollectible	**(31,722)**	(121,806)
Balance at the end of the year	**72,057**	59,132

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

Notes to the Financial Statements continued
For the year ended 31 July 2008

14 Trade and other receivables continued
Ageing of impaired trade receivables

	Group 2008 £	Group 2007 £
0–30 days	–	–
30–60 days	–	–
60+ days	72,057	59,132
Total	72,057	59,132

15 Trade and other payables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Trade payables	2,212,960	1,142,276	–	–
Taxation and social security costs	99,026	1,807,742	–	–
Other payables	879,308	1,001,710	–	–
Accruals and deferred income	1,886,247	1,983,443	–	–
	5,077,541	5,935,171	–	–

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

16 Provisions
Following the decision of the Group not to renew its lease at its leasehold store in Portsmouth, the Group may incur repairing and decoration liabilities ('dilapidations') based on the tenant's obligation to the landlord to keep the leasehold premises in good repair and decorative condition. Such claims will always be negotiated robustly by Lok'nStore and may require legal, valuation and surveyor's expertise, particularly if it can be shown that the landlord's interest in the premises has not been diminished by the dilapidations. As such, evaluations of actual liabilities and the timing of their settlement are always a critical judgement and any sums provided to be set aside can only be an estimate until a settlement is concluded. The carrying value of the provision for dilapidations at the balance sheet date was £84,664 (2007: £65,082). These amounts relate exclusively to the Portsmouth leasehold.

	2008 £	2007 £
Provisions		
Liability at start of year	65,082	46,157
Increase in provision for the year	19,582	18,925
Liability at end of year	84,664	65,082

17 Financial instruments
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 26. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

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

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

	Group 2008 £	Group 2007 £
Debt	(25,433,797)	(15,650,198)
Cash and cash equivalents	2,480,826	5,189,134
Net Debt	(22,952,971)	(10,461,064)
Balance sheet equity	42,910,666	50,908,087
Net debt to equity ratio	53.5%	20.5%

17 Financial instruments continued

The increase in the Group's gearing ratio arises due to increased bank borrowings to fund additions of £10.7 million to land and buildings, including the acquisition of the Portsmouth North Harbour and Maidenhead sites and the development of the Portsmouth Central and Harlow sites and a further £3.0 million to fixtures and fittings include fit-out at the Portsmouth Central and Harlow sites as well as the new leasehold store at Northampton Central. At 31 July 2008 the Group was carrying £14.4 million of development assets at cost compared to only £4.6 million at 31 July 2007.

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

A Derivative financial instruments and hedge accounting

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

B Debt management

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

The Group borrows through a senior five year term revolving credit facility, secured on its existing store portfolio with a net book value of £80.8 million. Borrowings are arranged to ensure the Company fulfils its strategy of growth and development of its store portfolio and to maintain short-term liquidity. Funding is arranged through Royal Bank of Scotland, with whom the Group has a strong working relationship. As at the balance sheet date the Group has a committed revolving credit facility of £40 million (2007: £40 million). This facility expires on 5 February 2012. Undrawn committed facilities at the year-end amounted to £14,566,203 (2007: £24,349,802).

C Interest rate risk management

The Group's policy on interest rate management is agreed at Board level and is reviewed on an ongoing basis. All borrowings are denominated in Sterling and are detailed in note 18. The Group has a number of revolving loans within its overall revolving credit facility and as such is exposed to interest rate risks at the time of renewal arising from any upward movement in the LIBOR rate.

The following interest rates applied:

1 LIBOR plus a 1.25%–1.35% margin for the revolving advances amounting to £25.4 million.
2 0.25% for non-utilisation (i.e. that part of the facility which remains undrawn from time to time).

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to 'one-day' or 'two-day' treasury deposits which attract interest at the prevailing money market rates. All amounts are denominated in Sterling. The balances at 31 July 2008 are as follows:

	Group 2008 £	Group 2007 £
Variable rate treasury deposits*	2,342,625	5,382,208

* Money market rates as at 31 July 2008 attributable to variable rate deposits were 5.19% to 5.21%.

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

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

D Interest rate sensitivity analysis

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

At 31 July 2008, it is estimated that an increase of one percentage point in interest rates would have increased the Group's annual loss before tax by £219,110 (2007: £162,605) and conversely a decrease of one percentage point in interest rates would have decreased the Group's annual loss before tax by £219,110 (2007: £162,605). There would have been no effect on amounts recognised directly in equity. The sensitivity has been calculated by increasing by 1% the average variable interest rate applying to the variable rate borrowings in the year.

Notes to the Financial Statements continued
For the year ended 31 July 2008

17 Financial instruments continued

E Cash management and liquidity

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 17B is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

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

F Foreign currency management

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

G Credit risk

The credit risk management policies of the Group with respect to trade receivables are discussed in note 14. The Group has no significant concentration of credit risk, with exposure spread across 6,500 customers in our stores.

The credit risk on liquid funds is limited because the counterpart 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 2008 was £801,580 (2007: £4,845,213).

H Maturity analysis of financial liabilities

The undiscounted contractual cash flow maturities are as follows:

2008 – Group

	Trade and other payables £	Borrowings £	Interest on borrowings £
From two to five years	–	25,433,797	7,407,848
From one to two years	–	–	1,851,962
Due after more than one year	–	25,433,797	9,259,810
Due within one year	5,077,541	–	–
Total contractual undiscounted cash flows	5,077,541	25,433,797	9,259,810

2007 – Group

	Trade and other payables £	Borrowings £	Interest on borrowings £
From two to five years	–	15,650,198	4,285,650
From one to two years	–	–	1,071,412
Due after more than one year	–	15,650,198	5,357,062
Due within one year	5,935,171	–	–
Total contractual undiscounted cash flows	5,935,171	15,650,198	5,357,062

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

I Fair values of financial instruments

Categories of financial assets and financial liabilities	**2008 £000**	2007 £000
Financial assets		
Trade and other receivables	**2,291,420**	5,924,750
Cash and cash equivalents	**2,480,826**	5,189,134
Financial liabilities		
Trade and other payables	**(5,077,541)**	(5,935,171)
Bank loans	**(25,311,225)**	(15,492,606)

17 Financial instruments continued

I Fair values of financial instruments continued

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

J Company's financial instruments

The Company's only financial assets are amounts owed by subsidiary undertakings amounting to £6.69 million (2007: £6.66 million) which are classified as loans and receivables. These amounts are denominated in Sterling, are non-interest bearing, are unsecured and fall due for repayment within one year. No amounts are past due or impaired. The Company has no financial liabilities.

18 Bank borrowings

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Bank loans repayable in more than two years but not more than five years				
Gross	25,433,796	15,650,198	–	–
Deferred financing costs	(122,571)	(157,592)	–	–
Bank loans repayable in more than two years but not more than five years				
Net	25,311,225	15,492,606	–	–

The bank loans are secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £85.8 million together with cross-company guarantees of Lok'nStore Limited. The revolving credit facility is for a five-year term and expires on 5 February 2012. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter Bank Offer Rate (LIBOR) plus 1.25%–1.35% Royal Bank of Scotland plc margin.

19 Deferred tax

Deferred tax liability	2008 £	2007 £
Liability at start of year	14,851,644	11,881,601
Effect of reduction in tax rate	–	(579,514)
Income statement charge	98,006	186,566
Tax (credited)/charged directly to equity	(2,518,176)	3,362,991
Liability at end of year	12,431,474	14,851,644

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

	Accelerated capital allowances £	Tax losses £	Other temporary differences £	Revaluation of properties £	Rolled over gain on disposal £	Total £
At 1 August 2006	1,132,287	(1,094,945)	(429)	11,844,688	–	11,881,601
Change in rate of tax	(75,486)	75,486	–	(579,514)	–	(579,514)
Charge to income for the year	169,896	(100,441)	24,955	(70,597)	162,753	186,566
Charge to equity for the year	–	(131,323)	–	3,494,314	–	3,362,991
Disposals	–	–	–	(2,590,609)	2,590,609	–
At 31 July 2007	1,226,697	(1,251,223)	24,526	12,098,282	2,753,362	14,851,644
Charge to income for the year	299,096	(134,374)	(1,842)	(64,874)	–	98,006
Charge to equity for the year	–	(162,880)	–	(2,149,702)	(205,594)	(2,518,176)
At 31 July 2008	**1,525,793**	**(1,548,477)**	**22,684**	**9,883,706**	**2,547,768**	**12,431,474**

As a result of the change in UK Corporation Tax rates which was effective from 1 April 2008, deferred tax balances have been remeasured at the tax rate of 28% as this is the rate that will apply when the temporary differences are expected to reverse.

Notes to the Financial Statements continued
For the year ended 31 July 2008

19 Deferred tax continued

At the balance sheet date, the Group has unused revenue tax losses of approximately £5.7 million (2007: £5.4 million) available to carry forward against future profits of the same trade and unused capital losses in the sum of £nil. (2007: £362,000). A deferred tax asset of £1.5 million (2007: £1.25 million) has been recognised in respect of such losses. This asset offsets against the deferred tax liability position in respect of accelerated capital allowances and other temporary differences. No deferred tax asset has been recognised in respect of the balance of the losses due to the uncertainty of recoverability. The unrecognised deferred tax asset in respect of these losses is £49,000 (2007: £367,000). The credit in respect of this unrecognised deferred tax asset will be a credit direct to equity in the event that the deferred tax asset is recognised in the future. The losses can be carried forward indefinitely.

A deferred tax asset of £72,000 (2007: £295,000) arises in respect of the share options in existence at 31 July 2008. A deferred tax asset has not been recognised in the accounts on the basis that the recoverability of the asset is not considered to be probable.

20 Share Capital

	2008 £	2007 £
Authorised:		
35,000,000 ordinary shares of 1 pence each (2007: 35,000,000)	**350,000**	350,000

	£	£
Allotted, issued and fully paid ordinary shares	**267,589**	267,314

	Authorised Number	Called up, allotted and fully paid £
Movement in issued share capital		
Number of shares at 1 August 2006	25,091,144	250,911
Exercise of share options – share option scheme	1,640,221	16,403
Number of shares at 31 July 2007	26,731,365	267,314
Exercise of share options – share option scheme	27,500	275
Number of shares at 31 July 2008	26,758,865	267,589

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

On 11 December 2007, options were exercised on 27,500 ordinary shares and that number of shares were issued for a consideration of £30,588 of which £30,313 has been credited to the share premium.

Following approval by shareholders of a special resolution at the AGM on 7 December 2007, the Company has authority to make market purchases of up to 5,845,299 shares. The authority expires at the conclusion of the next AGM, but is expected to be renewed at the next AGM.

21 Equity settled share-based payment plans

The Group operates 3 equity-settled share-based payment plans, an Enterprise Management Initiative Scheme ('EMI'), an approved and an unapproved share option scheme, the rules of which are similar in all material respects.

The Company has the following share options:

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

21 Equity settled share-based payment plans continued

Summary	As at 31 July 2006	Granted	Exercised	Lapsed/ surrendered	As at 31 July 2007
Enterprise Management Initiative Scheme	662,343	–	–	(28,349)	633,994
Approved Share Options Scheme	22,377	–	–	–	22,377
Unapproved Share Options	1,062,380	412,000	(13,621)		1,460,759
'Founder' Share Option Payments	1,641,467	–	(1,641,467)	–	–
Total	3,388,567	412,000	(1,655,088)	(28,349)	2,117,130
Options held by Directors	2,495,007	200,000	(1,619,467)	(540)	1,075,000
Options not held by Directors	893,560	212,000	(35,621)	(27,809)	1,042,130
Total	3,388,567	412,000	(1,655,088)	(28,349)	2,117,130

The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after three years. No options have been granted under the EMI approved scheme in the year (2007: 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 the meeting of performance criteria geared primarily to sales growth with the key non-market performance condition being the achievement of annual revenue targets. This condition has now been achieved. Exercise of an option is subject to continued employment. The life of each option granted is seven years. There are no cash settlement alternatives.

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

The total charge for the year relating to employer share-based payment schemes was £317,146 (2007: £275,572), all of which relates to equity-settled share-based payment transactions. In total a 'Share-based payments reserve' at 31 July 2008 of £804,619 results (2007: £487,473).

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

The total fair value of the options granted in the year was £232,277 (2007: £361,691).

22 Enterprise Management Initiative Scheme

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

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

1 The revenue for any period commencing after the date of grant has exceeded £10 million.
2 The profits for any period commencing after the date of grant has exceeded £3 million.
3 The share price has exceeded £5.
4 Control of the Company changes.

Since the year ended 31 July 2007, revenue has exceeded £10 million.

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22 Enterprise Management Initiative Scheme continued
Movements in the year are shown in the table below.

	Options 2008 number	Weighted average exercise price 2008 pence	Options 2007 number	*Weighted average exercise price 2007 pence
Outstanding at 1 August	633,994	114.97	662,243	121.78
Granted during the year	–	–	–	–
Forfeited during the year	(104,593)	106.78	(28,349)	117.02
Exercised during the year	(27,500)	111.23	–	–
Expired during the year	–	–	–	–
Outstanding at 31 July	501,901	116.88	633,994	121.85
Exercisable at 31 July	392,808	103.06	468,613	103.98

*Weighted average price for 2007 excludes options that were granted prior to November 2002.

The share price at the date of exercise was 199.0 pence per share. The share price at the year-end was 130.5 pence per share. The share price ranged from 117.04 pence per share to 222.00 pence during the year.

The options outstanding at 31 July 2008 had a weighted average contractual life of six years (2007: 10 years).

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

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

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

	As at 31 July 2007	Granted	Surrendered	As at 31 July 2008	Exercise price (pence)	Date from which exercisable	Expiry date
CM Jacobs	25,000	–	–	25,000	102	20/01/07	20/01/14
CM Jacobs	22,759	–	–	22,759	113	30/07/07	30/07/14
CM Jacobs	31,414	–	–	31,414	152	30/07/08	30/07/15
RA Davis	98,039	–	–	98,039	102	19/01/07	19/01/14

23 Approved Share Option Scheme

The Company issues approved share options.

The share options granted will only be exercisable upon the achievement of one of the following performance criteria:
1 Group revenue exceeds £5 million.
2 Share price exceeds 150 pence.
3 Control of the Company changes.

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

	Options 2008 number	Weighted average exercise price 2008 pence	Options 2007 number	Weighted average exercise price 2007 pence
Outstanding at 1 August	**22,377**	**111.35**	22,377	111.35
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**2,919**	**171.00**	–	–
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 July	**19,458**	**102.40**	22,377	111.35
Exercisable at 31 July	**19,458**	**102.40**	22,377	111.35

The options outstanding at 31 July 2008 had a weighted average remaining contractual life of one year (2007: three years).

All of these options were granted before 7 November 2002 and so have not been valued.

None of these options are held by Directors.

24 Unapproved Share Options

The Company issues unapproved share options.

The share options are exercisable from 8 July 2002 and 31 May 2003 will only be exercisable upon the achievement of one of the following performance criteria:
1 Group revenue exceeds £5 million.
2 Share price exceeds 150 pence.
3 Control of the Company changes.

Since year ended 31 July 2002, the Company's revenue has exceeded £5 million.

All other options will only be exercisable upon achievement of one of the following performance criteria:
1 The revenue for any period commencing after the date of grant has exceeded £10 million.
2 The profits for any period commencing after the date of grant has exceeded £3 million.
3 The share price has exceeded £5.
4 Control of the Company changes.

Since year ended 31 July 2007, the Company's revenue has exceeded £10 million.

24 Unapproved Share Options continued

Movements in the year are shown below:

	Options 2008 number	**Weighted average exercise price 2008 pence**	Options 2007 number	*Weighted average exercise price 2007 pence
Outstanding at 1 August	**1,460,759**	**153.53**	1,062,380	140.63
Granted during the year	**433,554**	**130.49**	412,000	219.72
Forfeited during the year	**(118,407)**	**165.64**	(13,621)	73.00
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 July	**1,775,906**	**152.72**	1,460,759	219.63
Exercisable at 31 July	**578,272**	**127.62**	356,395	107.71

*Weighted average price for 2007 excludes options that were granted prior to November 2002.

The options outstanding at 31 July 2008 had a weighted average remaining contractual life of eight years (2007: 10 years).

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

Date of grant	Expected life (years)	Share price at date of grant (pence)	Exercise price (pence)	Expected volatility (%)	Expected dividend yield (%)	Risk free interest rate (%)	Fair value charge per award
20 January 2004	6	100.00	102.00	33.80	0.00	4.60	41.04
16 May 2005	6	145.00	148.00	30.95	0.00	4.32	55.48
30 July 2004	6	113.00	113.00	32.31	0.00	5.11	47.20
29 July 2005	6	150.00	152.00	30.46	0.00	4.24	56.94
24 April 2006	6	176.50	176.50	29.53	0.00	4.62	68.21
31 July 2006	6	156.00	156.00	29.18	0.00	4.72	60.22
28 November 2006	6	203.50	148.00	29.32	0.00	4.75	103.85
24 April 2007	6	272.00	269.50	29.47	0.40	5.29	105.52
31 July 2007	6	213.50	213.50	29.96	0.50	5.38	82.24
01 August 2007	6	211.00	178.15	29.97	0.50	5.36	94.44
01 August 2007	6	211.00	93.00	29.97	0.50	5.36	140.00
01 August 2007	6	211.00	113.00	29.97	0.50	5.36	127.77
01 August 2007	6	211.00	152.00	29.97	0.50	5.36	106.64
31 July 2008	6	130.50	130.50	30.60	0.77	4.77	47.40

24 Unapproved Share Options continued

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

	As at 31 July 2007	Granted £	Exercised £	As at 31 July 2008	Exercise price (pence)	Date from which exercisable	Expiry date
A Jacobs	50,000	–	–	**50,000**	102	20/01/07	20/01/14
A Jacobs	50,000	–	–	**50,000**	113	30/07/07	30/07/14
A Jacobs	50,000	–	–	**50,000**	152	30/07/08	30/07/15
A Jacobs	50,000	–	–	**50,000**	156	31/07/09	31/07/16
A Jacobs	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
A Jacobs	–	50,000	–	**50,000**	130.5	31/07/11	31/07/18
S Thomas	50,000	–	–	**50,000**	102	20/01/07	20/01/14
S Thomas	50,000	–	–	**50,000**	113	30/07/07	30/07/14
S Thomas	50,000	–	–	**50,000**	152	30/07/08	30/07/15
S Thomas	50,000	–	–	**50,000**	156	31/07/09	31/07/16
S Thomas	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
S Thomas	–	50,000	–	**50,000**	130.5	31/07/11	31/07/18
R Davies	1,961	–	–	**1,961**	102	20/01/07	20/01/14
R Davies	50,000	–	–	**50,000**	113	30/07/07	30/07/14
R Davies	100,000	–	–	**100,000**	152	30/07/08	30/07/15
R Davies	100,000	–	–	**100,000**	156	31/07/09	31/07/16
R Davies	50,000	–	–	**50,000**	213.5	31/07/10	31/07/17
R Davies	–	50,000	–	**50,000**	130.5	31/07/11	31/07/18
C Jacobs	2,241	–	–	**2,241**	113	30/07/07	30/07/14
C Jacobs	25,000	–	–	**25,000**	148	16/05/08	16/05/15
C Jacobs	18,586	–	–	**18,586**	152	30/07/08	30/07/15
C Jacobs	25,000	–	–	**25,000**	205	28/11/09	28/11/16
C Jacobs	25,000	–	–	**25,000**	269.5	24/04/10	24/04/17
C Jacobs	–	45,000	–	**45,000**	130.5	31/07/11	31/07/18

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

25 Other reserves

Group	Merger reserve £	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
1 August 2006	**6,295,295**	**5,903,002**	**34,205**	**211,901**	**12,444,403**
Share based remuneration (options)	–	–	–	275,572	275,572
1 August 2007	**6,295,295**	**5,903,002**	**34,205**	**487,473**	**12,719,975**
Share based remuneration (options)	–	–	–	317,146	317,146
31 July 2008	**6,295,295**	**5,903,002**	**34,205**	**804,619**	**13,037,121**

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.

Company	Other distributable reserve £	Capital redemption reserve £	Share-based payment reserve £	Total £
1 August 2006	**5,903,002**	**34,205**	**211,901**	**6,149,108**
Share based remuneration (options)	–	–	275,572	275,572
1 August 2007	**5,903,002**	**34,205**	**487,473**	**6,424,680**
Share based remuneration (options)	–	–	317,146	317,146
31 July 2008	**5,903,002**	**34,205**	**804,619**	**6,741,826**

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For the year ended 31 July 2008

26 Retained earnings

Group	Retained earnings before deduction of own shares £	Own shares (note 27) £	Retained earnings Total £
1 August 2006	**(1,446,493)**	**(509,586)**	**(1,956,079)**
Profit for the financial year	635,409	–	635,409
Income and expense recognised directly in equity	259,906	–	259,906
Transfer from revaluation reserve	7,207,130	–	7,207,130
1 August 2007	**6,655,952**	**(509,586)**	**6,146,366**
Loss for the financial year	(839,647)	–	(839,647)
Income and expense recognised directly in equity	162,880	–	162,880
Transfer from revaluation reserve	166,818	–	166,818
Transfer to employee leaver	–	3,970	3,970
Dividends	(261,565)	4,318	(257,247)
Purchase of shares	–	(2,092,902)	(2,092,902)
31 July 2008	**5,884,438**	**(2,594,200)**	**3,290,238**

The Own Shares Reserve represents the cost of shares in Lok'nStore Group Plc purchased in the market and held in the Employee Benefit Trust to satisfy awards made under the Groups share incentive plan and shares purchased separately by Lok'nStore Limited for Treasury Account. These treasury shares have not been cancelled and were purchased at an average price considerably lower than the Company'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 1985 not to present the Company income statement. The Company profit for the year was £nil (2007: £nil).

27 Own Shares

	ESOP shares Number	ESOP shares £	Treasury shares Number	Treasury shares £	Own shares total £
1 August 2006 and 2007	**627,500**	**509,586**	**–**	**–**	**509,586**
Transfer out of scheme	(2,553)	(3,970)	–	–	(3,970)
Purchase of shares	–	–	1,142,000	2,092,902	2,092,902
Dividends received	–	(4,318)	–	–	(4,318)
31 July 2008	**624,947**	**501,298**	**1,142,000**	**2,092,902**	**2,594,200**

During the year Lok'nStore Limited purchased in several tranches a total of 1,142,000 of its own ordinary shares of 1p each for treasury with an aggregate nominal value of £11,420 for an aggregate cost of £2,092,902 at an average price of £1.818 per share (2007: £nil). These shares represent 4.27% of the Company's called-up share capital. The maximum number of shares held by the Company in the year was 1,142,000. No shares were disposed of or cancelled in the year.

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

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

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

As at 31 July 2008, the Trust held 624,947 (2007: 627,500) ordinary shares of 1 pence each with a market value of £815,556 (2007: £1,339,713). In accordance with the scheme rules, 2,553 shares (2007: nil) were transferred out of the scheme due to a leaver in the year.

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

28 Cash flows

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

	2008 £	2007 £
Profit/(loss) before tax	(741,446)	950,558
Depreciation	1,442,194	1,292,535
Impairment of goodwill	310,559	24,254
Share-based employee remuneration	317,146	275,572
Profit on sale of fixed assets	(563)	(605,263)
Interest receivable	(329,659)	(147,461)
Interest payable	1,608,587	1,113,201
Decrease in inventories	(18,168)	3,124
(Increase)/decrease in receivables	(302,787)	98,018
(Decrease)/Increase in creditors	(888,153)	1,996,588
Net cash inflow from operating activities	1,397,710	5,001,126

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

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

	31 July 2008 £	31 July 2007 £
(Decrease)/Increase in cash in the period	(2,708,308)	4,267,206
Change in net debt resulting from cash flows	(9,783,599)	(1,525,954)
Movement in net debt in period	(12,491,907)	2,741,252
Net debt brought forward	(10,461,064)	(13,202,316)
Net debt carried forward	(22,952,971)	(10,461,064)

29 Commitments under operating leases

At 31 July 2008 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 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Land and buildings				
Amounts due:				
Within one year	1,389,692	1,352,592	–	–
Between two and five years	5,338,768	4,910,384	–	–
After five years	6,981,973	4,651,468	–	–
	13,710,433	10,914,444	–	–

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.

29 Commitments under operating leases continued

The Group as lessor:

Property rental income earned during the year was £152,913 (2007: £10,221). 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 off the site or if very short the leases run off to the end of their term.

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

	Group 2008 £	Group 2007 £	**Company 2008 £**	Company 2007 £
Within one year	**86,078**	152,913	**–**	–
Between one and five years	**11,383**	97,461	**–**	–
After five years	**–**	–	**–**	–
	97,461	250,374	**–**	–

30 Events after the balance sheet date

The Group secured a planning permission, dated 30 September 2008, on its Southampton Third Avenue Site for the development of a new store. The corresponding S106 Agreement has been executed.

31 Related party transactions

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

	2008 £	2007 £
Lok'nStore Limited	**6,688,277**	6,657,689
Southern Engineering and Machinery Company Limited	**–**	–
Net amounts due to the Company from Subsidiaries	**6,688,277**	6,657,689

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

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

	2008 £	2007 £
Short term employee benefits	**482,432**	516,465
Post employment benefits	**3,233**	3,000
Share-based payments	**99,651**	145,238
Total	**585,316**	664,703

The Company maintains a service agreement for strategic services with Value Added Services Limited, a company in which Andrew Jacobs and Simon Thomas have a beneficial interest. The total fees payable to Value Added Services Limited are as shown in note 6. Fees are settled monthly and there were no outstanding amounts due to Value Added Services Limited at the year-end (2007: £nil). The maximum balance outstanding at any time during the year was £24,100 (ex VAT) (2007: £24,100).

The Company 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 £5,525 (2007: £5,525). The balance outstanding to Trucost PLC at year-end was £nil (2007: £nil).

The Company maintains a retainer agreement for investor relations services with h2glenfern Consulting Limited, a company in which Robert Jackson has a beneficial interest. The total fees payable to h2glenfern Consulting Limited are £2,000 per month (2007: £1,500 per month). There were no outstanding amounts due to h2glenfern Consulting Limited at the year-end. The maximum balance outstanding at any time during the year was £4,500 (ex VAT) (2007: £4,500 (ex VAT).

32 Capital commitments and guarantees

The Group has capital expenditure contracted for but not provided for in the financial statements of £1,464,885 (2007: £4,924,934). The outstanding commitments relate principally to the remaining building and fitting-out costs of the Portsmouth, Harlow and Northampton Central stores as well as the fit-out costs relating to the existing Luton Northampton and Eastbourne stores.

The Company has guaranteed the bank borrowings of Lok'nStore Limited. As at the year-end, that company had gross bank borrowings of £25.43 million (2007: £15.65 million).

33 Explanation of the transition to IFRS

The first full annual consolidated financial statements of the Group under IFRS are presented for the year ended 31 July 2008. Our interim results for the period to 31 January 2008 were presented under IFRS.

IFRS comparative figures have been prepared for the year ended 31 July 2007. The date of transition to IFRS was 1 August 2006. Reconciliations of equity at 1 August 2006 and 31 July 2007 and profit for the year ended 31 July 2007 between UK GAAP and IFRS are shown below. This move to IFRS has not changed the underlying performance and cash flow of the business but has significantly impacted on the way in which the results are presented.

The main changes for Lok'nStore are as follows:

- Freehold trading stores are now held in the balance sheet at fair value, having previously been held at historic cost less accumulated depreciation.
- Our operating leases remain as operating leases under IFRS. Both historically and currently we have used external independent valuers to value our freehold and our leasehold trading stores and we base our Net Asset Value calculation ('NAV') upon it. IFRS does not permit the inclusion of any valuation in respect of our stores to the extent that they are classified as operating leases. The value of our stores held under operating leases in the current valuation totals £11.57 million. We have reported by way of a note on page 17 the underlying value of these stores and adjusted our Net Asset Value ('NAV') calculation accordingly to include them at their value rather than at net cost. This will ensure comparable NAV calculations.
- The goodwill in our balance sheet is no longer subject to an amortisation charge for each period, but instead is been subject to an annual impairment review. No adjustment has been made to the carrying value of goodwill as at 31 July 2007 as the amortisation charge under UK GAAP was not materially different from the impairment charge determined from our impairment review.
- There are three main areas of deferred tax we have identified that are impacted by our adoption of IFRS:

  1) Deferred Tax on Rolled Over Gains

  Lok'nStore has realised significant gains on the disposal of the Kingston and Woking stores and the proceeds are and will continue to be reinvested in new operating properties. As such rollover relief will be claimed in respect of the entire gain. The tax liability deferred as a result of this is approximately £2.55 million at 28%. Under UK GAAP this need only be disclosed by way of a note in the accounts. However, under IFRS this balance is provided for as a deferred tax liability.

  2) Deferred Tax on Revaluation Gains

  Under IFRS a deferred tax liability is recognised on the difference between cost and the revalued amount of our freehold properties at tax rates enacted and substantively enacted at the balance sheet date (28% using current rates).

  3) Deferred Tax on Share-based Payments

  Under UK GAAP deferred tax is recognised on share-based payment charges to the extent that they give rise to a timing difference. Under IFRS, the potential tax relief should be calculated by reference to the share price at the balance sheet date, and then spread over the vesting period. Also under IFRS deferred tax should be recognised on all share-based payments whereas under UK GAAP deferred tax on options issued prior to November 2002 or which vested prior to application of the standard is not recognised. This has resulted in the recognition of a deferred tax asset as explained further in note 7.

  This annual report is therefore prepared under IFRS and includes the Group's IFRS accounting policies together with further details on key performance measures in the notes to the accounts.

33a Reconciliation of equity previously reported under UK GAAP to equity under IFRS

	Group 31 July 2007	Group 1 August 2006	Company 31 July 2007	Company 1 August 2006
Equity shareholders' funds under UK GAAP	22,551,039	10,806,011	6,872,252	6,254,894
Measurement and recognition IFRS adjustments				
Revaluation of trading properties	43,208,692	39,482,295	–	–
Goodwill amortisation	–	–	–	–
Deferred tax	(14,851,644)	(11,844,688)	–	–
Share based payments (IFRIC 11)	–	–	487,473	211,901
NET IFRS adjustments	28,357,048	27,637,607	487,473	211,901
Equity shareholders' funds under IFRS	**50,908,087**	**38,443,618**	**7,359,725**	**6,466,795**

33b Reconciliation of profit previously reported under UK GAAP to profit under IFRS

	31 July 2007 (Unaudited) £
Profit for the year under UK GAAP	10,852,098
Measurement and recognition IFRS adjustments	
Goodwill amortisation/impairment	–
Deferred tax charges	(223,479)
Current tax charge	(128,583)
Reduction to profit on disposal of land and buildings carried at valuation	(9,629,320)
Additional depreciation arising on revaluation of land and buildings	(235,307)
Net IFRS adjustments	(10,216,689)
Profit for the year under IFRS	635,409

The consolidated cash flow statements are not affected by the transition from UK GAAP to IFRS other than presentational and formatting differences.

33b Reconciliation of profit previously reported under UK GAAP to profit under IFRS continued

Reconciliation of the UK GAAP Consolidated Balance Sheet to the IFRS Consolidated Balance Sheet

1 August 2006

	As at 1 August 2006 UK GAAP £'000	Presentation Differences £'000	Measurement & recognition Differences £'000	As at 1 August 2006 IFRS £'000
Non-current assets				
Goodwill and intangible assets	334,813	–	–	334,813
Property, plant and equipment	25,430,037	–	39,482,295	64,912,332
Trade and other receivables	–	–	–	–
Deferred taxation assets	–	–	–	–
	25,764,850	–	39,482,295	65,247,145
Current assets				
Inventories	77,668	–	–	77,668
Trade and other receivables	2,022,769	–	–	2,022,769
Cash and cash equivalents	921,928	–	–	921,928
	3,022,365	–	–	3,022,365
Total assets	28,787,215	–	39,482,295	68,269,510
Current Liabilities				
Trade and other payables	(3,877,489)	55,305	–	(3,822,184)
Provisions	–	(55,305)	–	(55,305)
Bank overdrafts and loans	–	–	–	–
	(3,877,489)	–	–	(3,877,489)
Net current liabilities	(855,124)	–	–	(855,124)
Non-current liabilities				
Bank loans	(14,066,802)	–	–	(14,066,802)
Deferred taxation liabilities	(36,913)	–	(11,844,688)	(11,881,601)
	(14,103,715)	–	(11,844,688)	(25,948,403)
Total liabilities	(17,981,204)	–	(11,844,688)	(29,825,892)
Net assets	10,806,011	–	27,637,607	38,443,618
Equity				
Share capital	250,911	–	–	250,911
Share premium account	66,776	–	–	66,776
Other reserves	12,444,403	–	–	12,444,403
ESOP shares	(509,586)	–	–	(509,586)
Retained earnings	(1,446,493)	–	–	(1,446,493)
Revaluation surplus	–	–	27,637,607	27,637,607
Total equity	10,806,011	–	27,637,607	38,443,618

33b Reconciliation of profit previously reported under UK GAAP to profit under IFRS continued

Reconciliation of the UK GAAP Consolidated Balance Sheet to the IFRS Consolidated Balance Sheet

31 July 2007

	As at 31 July 2007 UK GAAP £'000	Presentation differences £'000	Measurement & recognition differences £'000	As at 31 July 2007 IFRS £'000
Non-current assets				
Goodwill and intangible assets	310,559	–	–	310,559
Property, plant and equipment	32,544,911	–	43,208,692	75,753,603
Trade and other receivables	–	–	–	–
Deferred taxation assets	–	–	–	–
	32,855,470	–	43,208,692	76,064,162
Current assets				
Inventories	74,544	–	–	74,544
Trade and other receivables	5,924,750	–	–	5,924,750
Cash and cash equivalents	5,189,134	–	–	5,189,134
	11,188,428	–	–	11,188,428
Total assets	44,043,898	–	43,208,692	87,252,590
Current Liabilities				
Trade and other payables	(6,000,253)	65,082	–	(5,935,171)
Provisions	–	(65,082)	–	(65,082)
Bank overdrafts and loans	–	–	–	–
	(6,000,253)	–	–	(6,000,253)
Net current assets	5,188,175	–	–	5,188,175
Non-current liabilities				
Bank loans	(15,492,606)	–	–	(15,492,606)
Deferred taxation liabilities	–	–	(14,851,644)	(14,851,644)
	(15,492,606)	–	(14,851,644)	(30,344,250)
Total liabilities	(21,492,859)	–	(14,851,644)	(36,344,503)
Net assets	22,551,039	–	28,357,048	50,908,087
Equity				
Share capital	267,314	–	–	267,314
Share premium account	667,731	–	–	667,731
Other reserves	12,719,975	–	–	12,719,975
ESOP shares	(509,586)	–	–	(509,586)
Retained earnings	9,405,605	–	(2,749,653)	6,655,952
Revaluation Surplus	–	–	31,106,701	31,106,701
Total equity	22,551,039	–	28,357,048	50,908,087

33b Reconciliation of profit previously reported under UK GAAP to profit under IFRS continued

Reconciliation of the UK GAAP Consolidated Income Statement to the IFRS Consolidated Income Statement

Year ended 31 July 2007

	Year ended 31 July 2007 UK GAAP £'000	Measurement & recognition Differences £'000	Year ended 31 July 2007 IFRS £'000
Revenue from continuing operations	10,665,532	–	10,665,532
Cost of sales	(328,216)	–	(328,216)
Gross profit	10,337,316	–	10,337,316
Administrative expenses	(8,515,402)	–	(8,515,402)
Share based payments	(275,572)	–	(275,572)
Additional depreciation based on Revalued assets	–	(235,307)	(235,307)
Operating profit	1,546,342	(235,307)	1,311,035
Exceptional (costs)/gains	10,234,583	(9,629,320)	605,263
Finance costs	(965,740)	–	(965,740)
Profit before taxation	10,815,185	(9,864,627)	950,558
Taxation	36,913	(352,062)	(315,149)
Profit for the year	10,852,098	(10,216,689)	635,409

Earnings per share (total and from continuing operations)

Basic	43.3p		2.5p
Diluted	42.2p		2.4p

Notes

Notes

Our Stores

Head office
Lok'nStore Plc
112 Hawley Lane
Farnborough
Hampshire GU14 8JE
Tel 01252 521010
www.loknstore.co.uk

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

Ashford, Kent
Wotton Road
Ashford
Kent TN23 6LL
Tel 01233 645500
Fax 01233 646000
ashford@loknstore.co.uk

Basingstoke, Hampshire
Crockford Lane
Chineham
Basingstoke
Hampshire RG24 8NA
Tel 01256 474700
Fax 01256 477377
basingstoke@loknstore.co.uk

Crayford, Kent
Block B
Optima Park
Thames Road
Crayford
Kent DA1 4QX
Tel 01322 525292
Fax 01322 521333
crayford@loknstore.co.uk

Eastbourne, East Sussex
Unit 4, Hawthorn Road
Eastbourne
East Sussex BN23 6QA
Tel 01323 749222
Fax 01323 648555
eastbourne@loknstore.co.uk

Fareham, Hampshire
26 + 27 Standard Way
Fareham Industrial Park
Fareham
Hampshire PO16 8XJ
Tel 01329 283300
Fax 01329 284400
fareham@loknstore.co.uk

Farnborough, Hampshire
112 Hawley Lane
Farnborough
Hampshire GU14 8JE
Tel 01252 511112
Fax 01252 744475
farnborough@loknstore.co.uk

Harlow, Essex
Unit 1 Dukes Park
Edinburgh Way
Harlow
Essex CM20 2GF
Tel 01279 454238
Fax 01279 443750
harlow@loknstore.co.uk

Horsham, West Sussex
Blatchford Road
Redkiln Estate
Horsham
West Sussex RH13 5QR
Tel 01403 272001
Fax 01403 274001
horsham@loknstore.co.uk

Luton, Bedfordshire
27 Brunswick Street
Luton
Bedfordshire LU2 0HG
Tel 01582 721177
Fax 01582 721188
luton@loknstore.co.uk

Milton Keynes, Buckinghamshire
Etheridge Avenue
Brinklow
Milton Keynes
Buckinghamshire MK10 0BB
Tel 01908 281900
Fax 01908 281700
miltonkeynes@loknstore.co.uk

Northampton Central
16 Quorn Way
Grafton Street Industrial Estate
Northampton NN1 2PN
Tel 01604 629928
Fax 01604 627531
nncentral@loknstore.co.uk

Northampton Riverside
Units 1–4
Carousel Way
Northampton
Northamptonshire NN3 9HG
Tel 01604 785522
Fax 01604 785511
northampton@loknstore.co.uk

Poole, Dorset
50 Willis Way
Fleetsbridge
Poole
Dorset BH15 3SY
Tel 01202 666160
Fax 01202 666806
poole@loknstore.co.uk

Portsmouth, Hampshire
Rudmore Square
Portsmouth PO2 8RT
Tel 02392 876783
Fax 02392 821941
portsmouth@loknstore.co.uk

Reading, Berkshire
5–9 Berkeley Avenue
Reading
Berkshire RG1 6EL
Tel 0118 958 8999
Fax 0118 958 7500
reading@loknstore.co.uk

Southampton, Hampshire
Manor House Avenue
Millbrook
Southampton
Hampshire SO15 0LF
Tel 02380 783388
Fax 02380 783383
southampton@loknstore.co.uk

Staines, Middlesex
The Causeway
Staines
Middlesex TW18 3AY
Tel 01784 464611
Fax 01784 464608
staines@loknstore.co.uk

Sunbury on Thames, Middlesex
Unit C, The Sunbury Centre
Hanworth Road
Sunbury
Middlesex TW16 5DA
Tel 01932 761100
Fax 01932 781188
sunbury@loknstore.co.uk

Swindon Kembrey Park, Wiltshire
Kembrey Street
Elgin Industrial Estate
Swindon
Wiltshire SN2 8AZ
Tel 01793 421234
Fax 01793 422888
swindoneast@loknstore.co.uk

Swindon (West), Wiltshire
16–18 Caen View
Rushy Platt Industrial Estate
Swindon
Wiltshire SN5 8WQ
Tel 01793 878222
Fax 01793 878333
swindonwest@loknstore.co.uk

Tonbridge, Kent
Unit 6 Deacon Trading Estate
Vale Road
Tonbridge
Kent TN9 1SW
Tel 01732 771007
Fax 01732 773350
tonbridge@loknstore.co.uk

Under development

Southampton, Hampshire
Third Avenue
Millbrook
Southampton SO15 0JX

North Harbour, Port Solent, Hampshire
Southampton Road
Portsmouth PO6 4RH

Maidenhead, Berkshire
Stafferton Way
Maidenhead
Berkshire SL6 1AY

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

LOK'nSTORE
Business & Household Self Storage

Head office

Lok'nStore Group Plc
112 Hawley Lane
Farnborough
Hampshire
GU14 8JE

Tel 01252 521010

www.loknstore.co.uk