Lok'nStore Group Plc

Interim Report for the
six months to 31 January 2005

05

LOK'nSTORE

Business & Household Self Storage

Lok'nStore Group Plc, one of the leading companies in the fast-growing self-storage market, which operates 19 stores in the South East, announces interim results for the six months ended 31 January 2005.

Highlights

- Turnover increased by 24% to £3.89 million (£3.14 million: six months to 31.01.04)
- Operating profit £320,261 (loss – £131,827*: six months to 31.01.04)
- Profit before tax of £75,903 (loss – £169,237*: six months to 31.01.04)
- Store EBITDA of £1.233 million (£0.734 million: six months to 31.01.04)
- Customers up 21.2% to 5,790 from 4,776 in January 2004
- Properties valued at £33.6 million (NBV £18.4 million)
- Further significant uplift in value expected from potential Kingston residential development
- Planning permission for high-density residential scheme at Kingston site granted. Permission is for 124 flats, and a new GP surgery of approximately 7,000 square feet

*After 31.01.04 exceptional items – £127,407

Andrew Jacobs, Chairman, commented:

"Lok'nStore's market position, leading brand and the increasing strength of our balance sheet demonstrates that we are well positioned to take advantage of this under-developed market. Trading is good and we continue to see attractive opportunities to grow the number of stores. The increased valuation of our properties provides financial flexibility for us. The Board is confident in its ability to continue to deliver growth in shareholder value."

Chairman's Statement

Overview
I am pleased to report another period of progress for the Group.

During the period our revenue grew and the business moved into profit as we continued to fill our centres. The operation is showing encouraging growth of EBITDA with stores producing over £1.23 million in the period. The increased property valuations discussed below emphasise the Group's financial strength and provides flexibility for future growth.

The Board remains committed to finding high quality self-storage sites whilst examining profitable opportunities to enhance the value of the existing stores.

We continue to believe that the south and south east of England presents the greatest opportunity for the Group, and our site acquisition strategy remains driven by rate of return, site location and visibility. Our tactical as well as strategic approach to acquisition continues to offer opportunities.

Our priorities remain:
- improving the operating performance of existing stores
- maximising the potential value of existing stores
- increasing the number of stores
- optimising the group's capital structure

Turnover Growth
Turnover for the six months to 31 January 2005 increased by 24% to £3.89 million (six months to 31.01.04: £3.14 million). Trading is following its usual seasonal pattern with annualised revenues rising to £8.1 million at 31 March 2005.

The Group achieved an operating profit of £320,261, after taking account of the development and launch of our new Tonbridge store, which incurred a loss of £124,296 in the five months since opening. This compares with an operating loss for the Group of £131,827 for the corresponding 2004 period.

The Group made pre-tax profit for the period of £75,903 compared with a loss of £169,237 for the corresponding period in 2004. Basic earnings per share was 0.31p per share (2004: loss of 0.59p per share).

Chairman's Statement *continued*

Store earnings before interest, tax, depreciation and amortisation (EBITDA) were £1.233 million for the period (six months to 31.01.04: £0.734 million).

Packing materials, insurance and other sales broadly kept pace with storage income at 7.5% of turnover, an increase of 15.8% over the period.

At the period end, the number of customers had risen to 5,790 from 4,776 in January 2004, an increase of 21.2% over the year. The business handled 3,593 'move-ins' during the period compared to 3,386 in the corresponding period in 2004. The total area let increased by 21.6% to 489,123 sq. ft (six months to 31.01.04: 402,346 sq. ft).

Financial strength and balance sheet efficiency

Strong cash flows continue to demonstrate the cash generative nature of the underlying business. Cash inflow from operating activities before interest and capital expenditure was just under £0.87million for the period, compared to £0.18 million for the corresponding 2004 period. Capital expenditure totalled £0.8 million. At 31 January 2005, the Group had cash balances of £0.55 million (31.07.04: £0.65 million) and £7.65 million of borrowings representing gearing of 66% on net debt of £7.1 million (31.07.04: 66%). Gearing is 28% when calculated using current market values of properties (see below).

On 31 January 2005, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker ("C&W/H&B"), in respect of all trading freehold and leasehold properties as operational self-storage businesses. Since the freehold site at Farnborough was only acquired on 30 July 2004, it has not been revalued. This Report was prepared on the basis of market value/existing use value, having regarded its trading potential as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was excluded. (See note 2 in the notes to the accounts for a more detailed description of valuation methodology.)

The Report indicates a total for properties valued of £31.84 million. Including Farnborough, (NBV £1.76 million), this gives a total value of properties held of £33.6 million (NBV £18.4 million). These valuations do not account for any further uplift in values, arising from the planning permission achieved for housing at the Kingston site, nor any successful outcome of the planning application for housing at the Reading site. While the Company does not envisage routinely revaluing its properties it will do so when appropriate.

This increase in property valuations provides the Group with increased financial flexibility and strength, enhancing our ability to borrow. It makes the value created more transparent and gives the Group the potential to release more value to shareholders whilst continuing to grow.

Planning permission granted

We are pleased to report that planning permission has been granted for high-density residential development at the site of the Company's current Kingston operation. The permission is for two 6-8 storey buildings containing 78 private flats, 16 key worker (shared equity) and 30 social units (43 one bedroom, 75 two bedroom and 6 three bedroom), and a new GP surgery of approximately 7,000 square feet. The planning permission is subject to the signing of the Section 106 Agreement.

The Kingston site was purchased in 1996 for £905,000. It has been operational as one of the Company's self-storage facilities for eight years. The book value of this site is currently £1.2 million. The Kingston site was valued by C&W/H&B as an operational self storage site at £2.75 million.

The Board is progressing discussions to maximise the proceeds and profit from this redevelopment.

Outlook

Lok'nStore's market position, leading brand and the increasing strength of our balance sheet demonstrates that we are well positioned to take advantage of this under-developed market. Trading is good and we continue to see attractive opportunities to grow the number of stores. The increased valuation of our freehold and leasehold sites provides financial flexibility for us. The Board is confident in its ability to continue to deliver growth in shareholder value.

Simon Thomas
Chairman
11 April 2005

Consolidated Profit and Loss Account
For the six months ended 31 January 2005

	Notes	**Unaudited Six months 31 January 2005 £**	Unaudited Six months 31 January 2004 £	Audited Year 31 July 2004 £
Turnover				
Continuing operations		**3,885,117**	3,135,997	6,611,911
Operating expenses		**(3,564,856)**	(3,140,418)	(6,490,237)
Exceptional items		**–**	(127,406)	(127,407)
Operating profit/(loss)		**320,261**	(131,827)	(5,733)
Loss on disposal of fixed assets		**–**	–	(870)
Interest receivable			13,562	36,950
Interest payable		**(244,358)**	(50,972)	(199,451)
Profit/(loss) on ordinary activities before taxation		**75,903**	(169,237)	(169,104)
Taxation	3	**–**	–	–
Profit/(loss) on ordinary activities after taxation		**75,903**	(169,237)	(169,104)
Earnings per share				
Basic	5	**0.31p**	(0.59)p	(0.64)p
Fully diluted	5	**0.28p**	(0.59)p	(0.64)p

There are no other recognised gains or losses.

Consolidated Balance Sheet
31 January 2005

	Notes	**Unaudited 31 January 2005 £**	Unaudited 31 January 2004 £	Audited 31 July 2004 £
Fixed assets				
Intangible assets		**371,196**	395,450	383,323
Tangible assets		**18,611,312**	13,684,285	18,162,957
		18,982,508	14,079,735	18,546,280
Current assets				
Stock		**87,443**	89,604	103,880
Debtors		**1,296,618**	1,203,851	1,948,711
Cash at bank and in hand		**550,545**	642,693	654,361
		1,934,606	1,936,148	2,706,952
Creditors:				
Amounts falling due within one year		**(2,601,913)**	(1,966,778)	(3,094,644)
Net current (liabilities)/assets		**(667,307)**	(30,630)	(387,692)
Total assets less current liabilities		**18,315,201**	14,049,105	18,158,588
Creditors:				
Amounts falling due after more than one year		**(7,650,000)**	–	(7,600,000)
		10,665,201	14,049,105	10,558,588
Capital and reserves				
Called up share capital		**250,711**	284,687	250,481
Share premium	4	**51,976**	21,496	21,496
Capital redemption reserve	4	**34,205**	–	34,205
Merger reserve		**6,295,295**	6,295,295	6,295,295
Other distributable reserve	4	**5,903,002**	9,907,951	5,903,002
Profit and loss account		**(1,360,402)**	(1,436,438)	(1,436,305)
ESOP shares		**(509,586)**	(1,023,886)	(509,586)
Shareholders' funds		**10,665,201**	14,049,105	10,558,588

Consolidated Cash Flow Statement

For the six months ended 31 January 2005

	Note	Unaudited Six months 31 January 2005 £	Unaudited Six months 31 January 2004 £	Audited Year 31 July 2004 £
Cash flow from operating activities	6a	**870,510**	178,432	934,854
Returns on investments and servicing of finance		**(251,115)**	(37,410)	(122,163)
Taxation		**–**	–	–
Capital expenditure and financial investment		**(804,751)**	(614,827)	(5,429,344)
Cash outflow before financing		**(185,356)**	(473,806)	(4,616,653)
Financing		**81,540**	14,690	4,169,204
(Decrease) in cash in the period		**(103,816)**	(459,116)	(447,449)

Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt)

	Note	31 January 2005 £	31 January 2004 £	31 July 2004 £
Decrease in cash in the period		**(103,816)**	(459,116)	(447,449)
Change in net funds/(debt) resulting from cash flows		**(49,851)**	2,310	(7,597,153)
Movement in net funds in period		**(153,667)**	(456,806)	(8,044,602)
Net funds brought forward		**(6,945,788)**	1,098,814	1,098,814
Net funds carried forward	6b	**(7,099,455)**	642,008	6,945,788

Notes to the Interim Results

1. Basis of Preparation

The interim results have been prepared on the basis of the accounting policies as set out in the statutory financial statements for the year ended 31 July 2004. The interim results, which were approved by the Directors on 11 April 2005, are unaudited but have been reviewed in accordance with Auditing Practices Board bulletin "Review of Interim Financial Information" by the auditors. The interim results do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

Comparative figures for the year ended 31 July 2004 are an abridged version of the Group's full accounts, which carry an unqualified audit report and have been delivered to the Registrar of Companies.

2. Market valuation of freehold land and buildings

On 31 January 2005, professional valuations were prepared by external valuers, Cushman & Wakefield Healey & Baker, in respect of all trading freehold land leasehold properties as operational self-storage businesses. The freehold site at Farnborough, acquired on 30 July 2004 was not valued on this occasion. This Report was prepared on the basis of market value/existing use value, having regarded its trading potential as appropriate, in accordance with RICS Appraisal and Valuation Standards but on the special assumption that any potential for residential development was excluded. (See below for a more detailed description of valuation methodology.)

The Report indicates a total for properties valued of £31.84 million. Including Farnborough (NBV £1.76 million), this gives a total value of properties held of £33.6 million (NBV £18.4 million). These valuations do not account for any further uplift in values, which would result from the planning permission achieved for housing at the Kingston site, nor any successful outcome of the planning application for housing at the Reading site. While the Company does not envisage routinely revaluing its properties it will do so when appropriate.

Valuation Methodology

Background

The USA has over 40,000 self-storage centres trading in a highly fragmented market with the largest five operators accounting for less than 16% of market share based on net rentable square footage. The vast majority of centres are owned and managed singly 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 having regard to trading potential. This approach is recognised in the RICS Appraisal & Valuation Standards published by The Royal Institution of Chartered Surveyors and is adopted for other categories of property that are normally bought and sold on the basis of their trading potential. Examples include hotels, bars, restaurants, marinas and petrol stations.

Notes to the Interim Results *continued*

In the UK the scope for active trading of these property assets is likely to be less, in a smaller market. However there is now some evidence that there will be liquidity as the market continues to develop.

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

Methodology

C&W/H&B have adopted different methodologies for the valuation of the leasehold and freehold assets as follows:

Freehold

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

Assumptions

A. Net operating income is based on actual revenue received less actual operating costs together with a central administration charge representing 7% 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 18 stores (both freeholds and leaseholds) averages 78%. The projected revenues and costs have been adjusted for estimated cost inflation and revenue growth.

C. Capitalisation rates of 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 and inflation. On average, for all 18 stores, the yield (net of purchaser's costs) arising from the first year of the projected cash flow is 6%. This rises to 12.86% based on the projected cash flow for the first full cash flow year following estimated stabilisation in respect of each property.

D. The notional sale of the freeholds at the end of the 10th year has been calculated at an average weighted exit yield of 9.66%.

E. The future net cashflow projections (including revenue growth and cost inflation) have been discounted at a rate that reflects the risk associated with each asset. The weighted average annual discount rate adopted (for both freeholds and leaseholds) is 12.5%.

F. On all assets, purchaser's costs of 5.75% have been assumed initially and sale and purchaser's costs totalling 7.75% are assumed on the notional sales in the 10th year in relation to the freehold stores.

Leasehold

The same methodology has been deployed as for freeholds, 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 (unweighted) of the Group's leaseholds is approximately 11 years and 1 month.

3. Taxation

There is no charge to corporation tax for the Group due to the availability of brought forward trading losses. No value is ascribed to the Group's tax losses, as their recovery in the foreseeable future is considered to be uncertain.

4. Share capital

	Unaudited 31 January 2005 £	Unaudited 31 January 2004 £	Audited 31 July 2004 £
Authorised:			
35,000,000 ordinary shares of 1p each (2004: 35,000,000)	**350,000**	350,000	350,000
Allotted, issued and fully paid:			
25,071,144 ordinary shares of 1p each (2004: 25,048,144)	**250,711**	284,687	250,481

Authority to make market purchases of its shares

Following approval by shareholders of a special resolution at the AGM on 16 December 2004, the Company has authority to make market purchases of up to 5,845,299 shares. The authority expires on 15 December 2005, but is expected to be renewed at the next annual general meeting.

Exercise of Share Options

On 25 January 2005, Colin Jacobs, a director of the Company, exercised an option to acquire 23,000 ordinary shares at 37 pence per share pursuant to an unapproved option arrangement dated 20 June 2000. In addition, Colin Jacobs sold on 25 January 2005, 20,496 Ordinary Shares in the Company at 150 pence per share. The share sale was effected through the company and as at 31 January 2005, the company owes Mr Jacobs £11,683 in respect of the proceeds of sale. No interest is payable on the sum. Following these transactions, Colin Jacobs' total beneficial holding (including family interests) in the Company increased from 12,496 to 15,000 ordinary shares.

5. Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit for the period of £75,903 (year to 31 July 2004: loss of £169,104; period to 31 January 2004: loss of £169,237) and on the weighted average number of shares in issue during the period of 24,421,519 shares (31 July 2004: 26,300,997 shares; 31 January 2004: 28,468,693).

Notes to the Interim Results *continued*

Fully diluted earnings per share includes shares held under the directors' option scheme and is based on a profit for the period of £75,903 (period to 31 July 2004: loss of £169,104; period to 31 January 2004: loss of £169,237) and on a weighted average number of shares during the period of 26,900,125 shares (31 July 2004: 27,436,581 shares; 31 January 2004: 30,346,523 shares).

6. Cash flows

	Unaudited 31 January 2005 £	Unaudited 31 January 2004 £	Audited 31 July 2004 £
(a) Reconciliation of operating profit to net cash flow from operating activities			
Operating profit/(loss)	**320,261**	(131,827)	(5,733)
Depreciation	**356,397**	329,179	664,153
Amortisation	**12,126**	12,127	24,255
Decrease/(increase) in stocks	**16,437**	12,179	(2,097)
Decrease/(increase) in debtors	**657,781**	323,929	(420,932)
(Decrease)/increase in creditors	**(492,492)**	(367,155)	675,208
Net cash flow from operating activities	**870,510**	178,432	934,854

	At 31 July 2004 £	Cash flow £	Other non-cash changes £	**At 31 January 2005 £**
(b) Analysis of net funds/(debt)				
Cash at bank and in hand	**654,361**	(103,816)	–	**550,545**
Debt due within one year	**–**	–	–	**–**
Debt due after one year	**(7,600,000)**	(50,000)	–	**(7,650,000)**
Finance leases	**(149)**	149	–	**–**
Total	**(6,945,788)**	(153,667)	–	**(7,099,455)**

Independent Review Report to Lok'nStore Group plc

Introduction
We have been instructed by the Company to review the financial information set out on pages 4 to 10 and we have read the other information in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report, including the conclusion, has been prepared for and only for the Company for the purpose of their Interim Statement and for no other purpose. We do not, therefore, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Directors' responsibilities
The Interim Statement, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Statement in accordance with the Alternative Investment Market Rules which require that the accounting policies and presentation applied to the interim figures must be consistent with those that will be adopted in the Company's annual accounts.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board as if that Bulletin applied. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

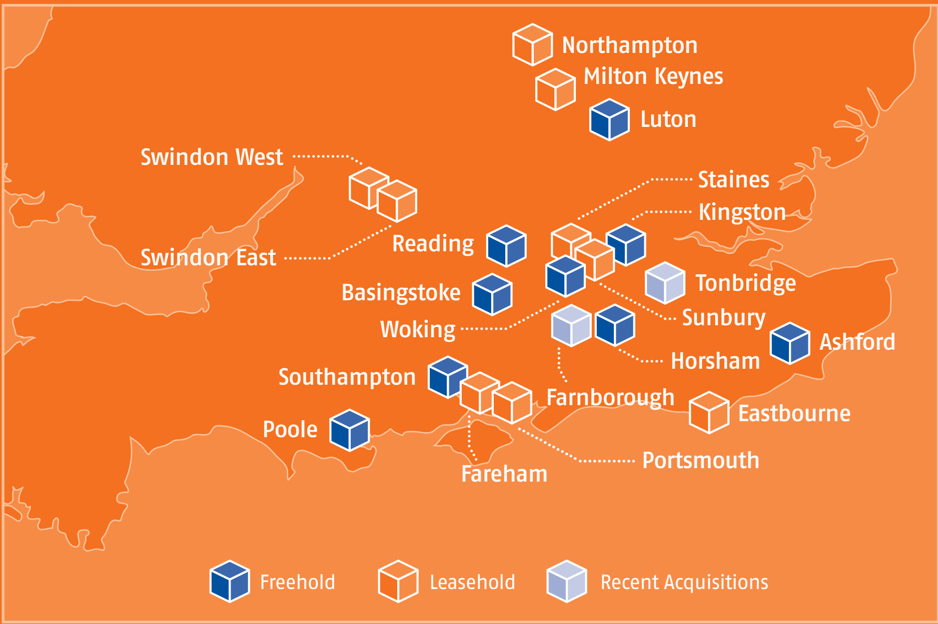
Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 January 2005.

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

11 April 2005

Notes

Lok'nStore Self Storage Centre Locations



Designed and produced by **Emperor Design Consultants Ltd**
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