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

Preliminary results
for the year ended 31 July 2019

Lok'nStore Group Plc, a leading company in the UK self-storage market announces results for the year ended 31 July 2019.

Highlights of Lok'nStore Group plc results 2019

Impressive growth and expanding new store opening programme

Robust trading

- ✓ Group Revenue (Continuing Operations) [1] £16.95 million up 10.3% (2018: £15.37 million)
- ✓ Group Adjusted EBITDA[2] (Continuing Operations) £7.39 million up 11.5% (2018: £6.63 million)
- ✓ Operating Profit (Continuing Operations) £5.06 million up 11.1% (2018: £4.55 million) before exceptionals[3]
- ✓ Net Profit £5.56 million up 48% (2018: £3.76 million)
- ✓ Unit occupancy up 6.0% and occupied units pricing up 0.6%

Cash flow growth drives dividend increase – eighth consecutive year of growth

- ✓ Annual dividend 12 pence per share up 9.1% (2018: 11 pence per share)
- ✓ Cash available for Distribution (CAD) [4] per share up 8.8 % to 18.95 pence (2018: 17.42 pence)

Significant growth in asset value

- ✓ Adjusted Total Assets[5] up 11.2% to £201.7 million (2018: £181.4 million)
- ✓ Adjusted Net Asset Value[6] per share up 11.1% to £5.33 (2018: £4.80)

Strong balance sheet, conservative debt

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

Efficient capital allocation

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

Healthy pipeline of new landmark stores[8] to deliver further growth in revenue, profits and assets

- ✓ 5 new stores opened or acquired

- ✓ 3 new sites acquired
- ✓ Total pipeline 14[8] stores taking total to 48 stores when developed

Positive outlook

- ✓ Revenue, profits and asset values all moving strongly ahead and outlook remains positive

For all of the definitions of the terms used in the highlights above refer to the notes section below.

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

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

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

Notes - What we mean when we say … (and why we use these key performance indicators (KPIs))

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

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

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

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

4. **CAD – Cash available for Distribution –** is calculated as Adjusted EBITDA less total net finance cost, less capitalised maintenance expenses, New Works Team costs and current tax. This measure is designed to give clarity to the capacity of the business to generate ongoing net operating cash that can be used to pay dividends to shareholders or pay down debt. The calculation of the Cash available for Distribution is set out in the Financial Review on page 17.

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

6. **NAV – Net Asset Value per share –** Adjusted net asset value per share is the net assets adjusted for the valuation of leasehold stores (properties held under operating leases) and deferred tax divided by the number of shares at the year-end. The shares held in the Group's employee benefits trust and treasury shares are excluded from the number of shares. The calculation of the Net Asset Value per share is set out in the Financial Review on page 19.

7. **LTV – Loan to value ratio –** measures the debt of the business expressed as a percentage of total property assets giving a perspective on the gearing of the business. The calculation is based on net debt of £29.3 million as set out in note 25(b) (2018: £32.3 million) as a percentage of the total properties independently valued by JLL and including development land assets totalling £181.2 million (2018: £162.8 million) as set out in the Business and Financial Review on page 18.

8. **Pipeline sites** – means sites for new stores that we have either exchanged contracts on or have agreed heads of terms and are progressing with our lawyers towards completion. We now have 14 pipeline sites of which 8 are contracted and 6 are currently with lawyers.

9. **Adjusted Store EBITDA** is Group Adjusted EBITDA (see 2 above) before the deduction of central and head office costs. This important information provides an insight into the underlying performance of the trading stores and shows the cash generating core of the business. Use of this metric enables us to provide additional information on store EBITDA contributions and the margins analysed between freehold and leasehold stores and according to the age of the stores. This analysis is set out in a table in the Chief Executive Officer's Review on page 10.

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

11. **Group Adjusted EBITDAR** - EBITDAR is Earnings before interest, tax, depreciation amortisation and rent. The measure is designed to give clarity on the effect of the rent payable by leasehold stores and how its elimination enables an analytical comparison between freehold stores operating performance (which do not pay rent) and leasehold stores operating performance. This analysis is set out in a table in the Chief Executive Officer's Review on page 10.

12. **Cost Ratio -** calculates the ratio of the total operating costs of the business as set out on page 15 of the Financial Review, expressed as a percentage of total group revenue (note 1a), giving a perspective on the cost efficiency of the business when compared to the cost ratio of the previous year.

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

Chairman's Statement

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

During the year we opened 4 new landmark stores which are all trading well and have contributed to both the growth in turnover and the significant rise (11.1%) in our Adjusted Net Asset Value per share to £5.33 (2018: £4. 80). Our new store pipeline has increased to 14 sites.

The detail behind these results is discussed further in our Chief Executive Officer's Review and the Financial Review on pages 9 to 11 and 15 to 21 respectively. The performance of Lok'nStore this year can be summarised under three headings:

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

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

Capital recycling

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

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

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

Managed Stores

Our growth strategy includes increasing the number of stores we manage for third party owners. This enables the Company to earn revenue without having to commit our capital, to amortise fixed central costs over a wider operating base and drive further traffic to our website which benefits our entire operation. We generated managed store income of £816,676 this year, up 53% from the previous year. Managed store income is generated from our existing platform and central management, resulting in an effective margin from this activity of 100%. Our current pipeline includes an additional 2 managed stores which will take the total number of managed stores to 13.

Committed People

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

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

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

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

Board Governance

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

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

Progressive Dividend Policy

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

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

Simon G Thomas
Chairman
1 November 2019

The UK Self-Storage Market

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

Square Feet of Self Storage per head of Population UK Australia US 0.68 1.8 9.4	Annual Turnover of UK Self Storage Industry £720m	Average Store Size 28,800 sq. ft.
1.3m sq. ft. of additional space used by customers in 2018	3.9% rise in occupancy across the industry in 2018	Only 48% of people have a reasonable or good awareness of self-storage

Market overview

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

The structure of the UK industry is changing. When the industry first emerged companies were predominately single owner sites often located in industrial areas but larger operators (defined as operators managing 10 or more sites), such as Lok'nStore, have recently been developing purpose built stores in retail facing locations offering customers a higher standard of product and service.

The main barriers to entry to the market remain the difficulty in finding and securing suitable sites as well as gaining the appropriate planning consents. As a result, according to the SSA UK, larger operators now own or manage around 30% of facilities which translates to 40% of market share in terms of revenue and space. Currently Lok'nStore is the 4th largest operator in the UK.

Drivers of demand for self-storage

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

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

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

Lok'nStore's Opportunity in the Market

The Self-Storage Association UK (SSA UK) Annual Industry Survey 2019 notes that public awareness of and demand for self-storage is increasing. We know that on average customers chose a store within 5 miles of their home or business. With a pipeline of 8 secured stores and a further 6 stores progressing through the acquisitions process, Lok'nStore is well placed to attract these customers and add further momentum to the growth of our sales and profits.

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

Our Business Model:

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

What we do	How we create value	Sharing value with our stakeholders
• Buy (or lease) prominent sites • Build (or refurbish) landmark, highly visible orange storage centres • Offer clean, dry, secure storage to business and household customers	• Take a flexible approach to site selection • Increase our asset base • Careful cost control • Managed pricing strategy • Earn fees from managing stores on behalf of others • Carefully balanced use of Leverage	Shareholders • High quality earnings • Growing NAV • Progressive dividend policy Customers • Easy to locate stores • Friendly and high level customer service • Wide range of storage solutions • Transparent and open contracts Our people • Development Opportunities through the Lok'nStore Academy • Uncapped bonus scheme for all • Share ownership plans • Strong health and safety approach
34 UK Stores currently trading (including 11 Managed Stores)	£17 million revenue	• 12 pence annual dividend per share • 5 Star customer reviews on trust pilot • £0.44 million (2018: £0.40 million) paid out in bonuses to store teams

Our strategy:

Our objectives	Achievements in 2019	Strategy in action
Steadily increase cash available for distribution (CAD) per share	Cash available for distribution (CAD) per share up 8.8% to 18.95 pence (2018:17.42 pence)	9.1 % increase in annual dividend to 12 pence per share
Fill existing stores and improve pricing	We developed the customer journey giving customers the ability to find and respond to previous quotes with one click. We focussed on developing our teams' sales and customer service through the Lok'nStore Academy. These actions resulted in conversion of new enquiries improving by 1% over the year.	Self-storage unit occupancy up 6.0% Self-storage pricing up 0.6%.
Acquire more sites to build new landmark stores	Cardiff, Dover, Exeter and Ipswich stores opened in the year - all in prominent locations. 8 stores in planning or development.	Acquired 3 new sites in Stevenage, Wolverhampton and Warrington
Increase the number of stores we manage for third parties	Dover and Exeter managed stores opened during the year We are developing a managed store in Gloucester and have 3 managed store sites with lawyers.	6 managed stores in pipeline

Chief Executive Officer's Review:

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

Robust trading

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

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

Total adjusted store EBITDA in self-storage, a key performance indicator of profitability and cash flow of the business, increased 6.7% to £8.99 million (2018: £8.42 million). On a like for like basis [13], the overall adjusted EBITDA margin across all stores was over one percentage point higher at 58% (2018: 56.9%) with the adjusted Store EBITDA margins of the freehold stores at 65.4% (2018: 64.1%) and the leasehold stores at 43.1% (2018: 44.1%).

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

By the year-end we had 11 managed stores following the opening of the 2 new managed stores in Dover and Exeter, and the sale of our existing store in Crayford on a sale-and manage-back. The average unexpired term of the Group's operating leaseholds is approximately 11 years and 0 months as at 31 July 2019 (11 years and 1 month: 31 July 2018). The leaseholds produced 24.8% of the total store EBITDA in the year (2018: 27.6%).

In the table below we show how the performance of the stores varies between freehold and leasehold stores. Currently 46.9% of Lok'nStore owned trading space is freehold, 24.6% is leasehold and 28.5% managed stores. Inevitably the leaseholds trade on lower margins due the rent payable, but nevertheless the 43.1% margins achieved is substantial, and leads to a higher return on capital than the freehold stores which require much larger capital expenditure to buy the land and buildings. The freehold stores produce 75.2% of the store EBITDA and account for 89.7% of valuations (including secured pipeline stores). When the secured pipeline is fully developed the freeholds will account for 53.6% of trading space, leaseholds will be 19.3% and managed stores 27.1%. This mix of tenures with their different risk and return characteristics provides strength in the balance sheet and opportunities to create value throughout the cycle, and is always driven solely by consideration of the operating business.

Portfolio Analysis and Performance Breakdown

						When fully Developed	
Portfolio Analysis and Performance Breakdown **As at 31 July 2019**	**Number of stores**	**% of Valuation**	**% of Adjusted Store EBITDA**	**Adjusted Store EBITDA margin (%)**	**% lettable space**	**Number of Stores**	**Total % lettable space**
Freehold	15	79.5	75.2	61.8	46.9	21	53.6
Operating Leaseholds	8	10.3	24.8	43.1	24.6	8	19.3
Managed Stores	11	–	–	100	28.5	13	27.1
Total Stores Trading	34	–	–	–	–	42	–
Pipeline Stores	**8***						
Owned	6	10.2	–	–	–	–	–
Managed Stores	2	–	–	–	–	–	–
Total Stores	**42**	**100**	**100**	**55.8**	**100**	**42**	**100**

*Applies to the 8 contracted stores only

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

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

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

Table covers Lok'nStore owned stores only

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

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

Document storage business sold

- ✓ Document storage business sold for £7.63 million cash

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

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

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

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

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

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

Pipeline of new stores

Against this background of ever improving operating performance we have invested £14.0 million in new store development this year and we have now seen a rapid increase in our new store pipeline to 8 secured stores by the reporting date, which will take the total to 42 stores. These will all be purpose built landmark stores in highly prominent locations and will add substantially to the Group's capacity for revenue, profit and asset growth. We have 6 further store acquisitions progressing through the legal process.

Managed stores

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

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

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

Future

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

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

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

Andrew Jacobs
Chief Executive Officer
1 November 2019

Property review

Store and portfolio strategy

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

Flexible approach to site acquisition

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

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

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

A further 8 stores are under development of which 6 will be owned freehold by Lok'nStore. There are 6 further sites with lawyers.

Growth from new stores and more new stores to come

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

Bedford

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

Bournemouth

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

Cheshunt

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

Leicester

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

Gloucester

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

Stevenage

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

Wolverhampton

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

Warrington

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

New Stores Opened during the year

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

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

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

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

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

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

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

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

More pipeline sites with lawyers
Currently we have 6 more pipeline sites with lawyers.

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

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

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

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

	Group Year ended 31 July 2019	Group Year ended 31 July 2018
Management fees	**£**	£
Base management fees	**352,814**	283,524
Administration and compliance fees	**40,500**	30,500
Enhanced Management fees	**168,362**	66,864
Construction & Advisory fees	**55,000**	–
Supplementary fees	**200,000**	150,000
Total management fees	**816,676**	534,888

When this contracted development pipeline of 8 sites has been completed Lok'nStore will operate from 42 stores including 13 managed stores. In addition 6 further new store opportunities are progressing with lawyers.

The 8 secured pipeline sites represent a combination of 6 owned and 2 managed stores. These will add 455,000 sq. ft. of new capacity adding 45.6% to freehold trading space and 21.1% to the managed store portfolio delivering a 27.4% increase in overall trading space.

Growing Store property assets and Net Asset Value

- ✓ Adjusted total assets £201.7 million[3] up 11.2% on last year (2018: £181.4 million)
- ✓ Adjusted net asset value of £5.33 per share up 11.1% on last year (2018: £4.80 per share)

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

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

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

Financial Review:

Record financial results on all measures

- ✓ Group Revenue £16.95 million up 10.3% (2018: £15.37 million)
- ✓ Group Adjusted EBITDA £7.39 million up 11.5% (2018: £6.63 million)
- ✓ Operating profit (before exceptional items[2]) £5.06 million up 11.1% (2018: £4.55 million)

The Group has again delivered strong financial results.

Earnings per share

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

	Group 2019 £'000	Group 2018 £'000
Profit for the financial year – continuing operations	**3,380**	3,304
Profit for the financial year – discontinued operations	**2,182**	453
Total profit for the financial year attributable to owners of the parent	**5,562**	3,757

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

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

623,212 (2018: 623,212) shares are held in the Employee Benefit Trust (see note 24).

[1] Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented. Details of share options are included in note 21

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

Operating costs

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

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

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

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

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

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

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

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

Strong balance sheet, efficient use of capital, conservative level of debt

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

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

Increase in £50 million Banking Facility to £75 million
In April 2019, the Group increased its bank facility by £25 million to £75 million, with a further £25 million accordion option taking the facility to £100 million. The increased facility will provide funding for new landmark site acquisitions and working capital to support the Group's ambitious growth plans.

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

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

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

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

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

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

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

Strong cash flow supports 9.1% dividend increase

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

Cash available for Distribution (CAD)

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

Analysis of Cash Available for Distribution (CAD)

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

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

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

Capital expenditure and capital commitments

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

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

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

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

Statement of Financial Position

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

Taxation

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

Market Valuation of Freehold and Operating Leasehold Land and Buildings

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

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

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

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

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

Analysis of Total Property Value

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

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

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

3 For more details refer note 10b - Directors valuation

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

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

Significant increase in Adjusted Net Asset Value per Share

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

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

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

Analysis of net asset value (NAV)	**Group 31 July 2019 £'000**	Group 31 July 2018 £'000
Net assets	**117,158**	103,251
Adjustment to include operating/short leasehold stores at valuation		
Add: JLL operating leasehold valuation	**18,725**	18,200
Deduct: leasehold properties and their fixtures and fittings at NBV	**(3,905)**	(2,691)
	131,978	118,760
Deferred tax arising on revaluation of leasehold properties[1]	**(2,519)**	(2,636)
Adjusted net assets	**129,459**	116,124
Shares in issue	**Number ('000s)**	Number ('000s)
Opening shares in issue	**29,499**	29,303
Shares issued for the exercise of options	**85**	196
Closing shares in issue	**29,584**	29,499
Shares held in EBT	**(623)**	(623)
Closing shares for NAV purposes	**28,961**	28,876
Adjusted net asset value per share after deferred tax provision	**£4.47**	£4.02

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

[1] A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included, calculated by applying a tax rate of 17% (2018: 17%). Although this is a memorandum adjustment as leasehold properties are included in the Group's financial statements at cost and not at valuation, this deferred tax adjustment is included in the adjusted net asset value calculation in order to maintain a consistency of tax treatment between freehold and leasehold properties.

Summary

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

IFRS update: IFRS 16 Leases

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

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

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

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

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

The Statement of Financial Position: The Group's operating leases on its leased stores will be recognised as a 'right of use asset' and as a corresponding liability at the year–end. Each lease payment is allocated between the liability and finance cost. The finance costs are charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining liability for the period. The right-of-use asset is depreciated on a weighted depreciation charge based on the individual lease term of the separate operating leases. Assets and liabilities arising from a lease will initially be measured on a present value basis which will include the fixed rental payments less any lease incentives receivable. If the interest rate implicit in the lease cannot be readily determined the lease payments will be discounted by the Group's incremental borrowing rate (cost of debt) to obtain an asset of similar value over a similar term with similar security. Right of use assets will be measured at cost comprising the initial measurement of the lease liability plus any initial direct costs (if any). The Groups current operating lease commitments are reported in Note 26.

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

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

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

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

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

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

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

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

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

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

For more detailed information on the Groups Commitments under operating leases refer to note 26 (Commitments under operating leases)

Principal Risks and Uncertainties:

Principal Risks and Uncertainties in operating our Business

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

Management of our risks helps us protect our reputation which is very important to the ability of the Group to attract customers, particularly with the growth of social media. We always try to communicate clearly with our customers, suppliers, local authorities and communities, employees and shareholders and to listen and take account of their views. We operate strict Health and Safety policies and procedures and more information on these can be found in our 2019 Annual Report.

Our Risk Management Governance

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

Risk Management Framework

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

Risk Management Team

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

Our Risk Management and Reporting Structure

<table>
<tr><td colspan="2">The Board</td></tr>
<tr><td colspan="2">Reviews Risk Register in full twice a year
Considers specific risk areas as raised by the Executive Board</td></tr>
<tr><td colspan="2">Executive Board Committee</td></tr>
<tr><td colspan="2">Reviews risks at monthly executive management meetings and if material requests for the Board to consider risk at next scheduled Board Meeting (or earlier if necessary)</td></tr>
<tr><td>Capex Committee</td><td>Property Risk Committee</td></tr>
<tr><td>Meets Monthly
Manages proposed capital expenditure, actual spend, rolling capex requirements</td><td>Meets Quarterly
Considers:
Risks associated with properties including Health & Safety
Environmental Impact</td></tr>
</table>

Principal Risks

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

Risk	Description	Key mitigation
Interest Rate and Liquidity Risk	The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk (for details please see note 17, page 44).	▪ Regular review by the Board (full details are set out in the Financial Review, page 16). ▪ Debt and interest are low relative to assets and earnings. ▪ Could reduce debt, if required, by executing 'Sale and Manage-Back arrangements on mature stores.
Tax Risk	Changes to tax legislation may impact the level of corporation tax, capital gains tax, VAT and stamp duty land tax which would in turn affect the profits of the company.	▪ Regular monitoring of changes in legislation. ▪ Use of appointed professional advisers and trade bodies.
Property Valuation Risk	The external independent valuations of the stores is sensitive to both operational trading performance of the stores and also wider market conditions. It follows that a reduction in operational performance or a deterioration of market conditions could have a material adverse impact on the Net Asset Value (NAV) of the Group.	▪ Regular monitoring of any changes in market conditions and transactions occurring within our marketplace. ▪ Use of independent professional valuers expert in the self-storage sector. ▪ Past experience from the financial crisis of 2008 shows the sector has been resilient to a market downturn. ▪ Store properties are all UK based and predominately located in the affluent South of England and therefore not exposed to overseas/international/currency risks etc. ▪ Strong operational management teams with the skills, experience and motivation to continue to drive operational performance.
Property Acquisition	Acquiring new sites is a key strategic objective of the business but we face significant competition from other uses such as hotels, car showrooms and offices as well as from other self-storage operators.	▪ We hold weekly property meetings to manage the search process and property purchases. ▪ Use of property acquisition consultants. ▪ Regular communication with agents. ▪ Attendance at industry relevant property events.
Planning Permission	The process of gaining planning permissions remains challenging.	▪ Where we can we acquire sites subject to planning. ▪ We work with an established external planning consultant. ▪ Our property team has over 20 years' experience.
Construction	Poor construction may affect the value of the property and/ or the efficient operation of the centre.	▪ We use a design and build contract with a variety of established contractors. ▪ We use external project managers. ▪ All projects are overseen by our property team which has over 20 years' experience.
Maintenance/ Damage	Damage to properties through poor maintenance or flood or fire could render a centre inoperable.	▪ Regular site checks by team members. ▪ Rolling maintenance plan for all stores. ▪ Comprehensive disaster recovery plan. ▪ Appropriate insurance cover.
Increased Competition	An increasing number of competitors in the industry may negatively impact Lok'nStore's existing operations (e.g. pricing / available sites).	▪ Established criteria for site selection including: ○ Prominent locations ○ High visibility ○ Distinctive designs and bright orange elevations and strong signage to attract customers ▪ Continued investment in internet marketing. ▪ Ensure high levels of customer service through training & monitoring.
Employee Retention	Loss of employees may affect our ability to operate our stores and provide the high levels of customer service expected.	▪ Aim to offer a good work/life balance and career development. ▪ Regular reviews of remuneration levels against market. ▪ Achievable bonus systems. ▪ Generous Employee Share Schemes. ▪ High quality training via Lok'nStore Academy. ▪ New Intranet for improved communications. ▪ Established Employee rewards program.
IT System Breach	A breach of our IT systems might adversely affect the operations of the business and our reputation.	▪ Strong and regularly reviewed IT security systems. ▪ Well communicated policies and procedures for handling and managing a systems breach.

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2019

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

[1] Adjusted EBITDA and operating profit are defined in the accounting policies section of the notes to the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 July 2019

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

Company Statement of Changes in Equity

For the year ended 31 July 2019

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

Consolidated and Company Statements of Financial Position

31 July 2019 Company Registration No. 04007169

	Notes	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Assets					
Non-current assets					
Intangible assets	10(a)	**–**	3,263	**–**	–
Property, plant and equipment	10(b)	**168,938**	152,580	**–**	–
Investments	13	**–**	–	**2,464**	2,418
Financial assets	2(c)[1]	**361**	361	**–**	–
		169,299	156,204	**2,464**	2,418
Current assets					
Inventories	14	**298**	257	**–**	–
Trade and other receivables	15	**3,707**	4,476	**14,576**	13,940
Cash and cash equivalents	17	**13,662**	4,990	**–**	–
		17,667	9,723	**14,576**	13,940
Total assets		**186,966**	165,927	**17,040**	16,358
Liabilities					
Current liabilities					
Trade and other payables	16	**(4,753)**	(5,159)	**–**	–
Current tax liabilities		**(339)**	(612)	**–**	–
		(5,092)	(5,771)	**–**	–
Non-current liabilities					
Borrowings	18	**(42,331)**	(37,170)	**–**	–
Deferred tax	19	**(22,385)**	(19,735)	**–**	–
		(64,716)	(56,905)	**–**	–
Total liabilities		**(69,808)**	(62,676)	**–**	–
Net assets		**117,158**	103,251	**17,040**	16,358
Equity attributable to owners of the parent					
Called up share capital	20	**296**	295	**296**	295
Share premium		**10,490**	10,350	**10,490**	10,350
Other reserves	22(a)	**8,357**	8,363	**1,838**	1,843
Retained earnings	23	**26,909**	19,344	**4,416**	3,870
Revaluation reserve		**71,106**	64,899	**–**	–
Total equity attributable to owners of the parent		**117,158**	103,251	**17,040**	16,358

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

Approved by the Board of Directors and authorised for issue on 1 November 2019 and signed on its behalf by:

Andrew Jacobs
Chief Executive Officer

Ray Davies
Finance Director

Consolidated Statement of Cash Flows

For the year ended 31 July 2019

	Notes	**Group 2019 £'000**	Group 2018 £'000
Operating activities			
Cash generated from operations	25(a)	**8,067**	6,982
Income tax paid		**(955)**	(775)
Net cash generated from operations		**7,112**	6,207
Investing activities			
Proceeds of disposal of discontinued operation – net of disposal costs and cash included in sale		**6,849**	–
Proceeds of sale of land (net of disposal costs)		**796**	–
Proceeds of sale of store		**7,418**	–
Acquisition of subsidiary (net of cash acquired)		**(1,069)**	–
Development loan capital repaid		**–**	3,463
Purchase of property, plant and equipment		**(14,029)**	(21,935)
Proceeds from warranty claims		**–**	342
Interest received		**31**	80
Net cash outflow from investing activities		**(4)**	(18,050)
Financing activities			
Proceeds from drawdown of new bank facility		**42,971**	–
Repayment of bank borrowings on retiring bank facility		**(42,395)**	–
Proceeds of bank borrowings utilised for store development		**5,653**	8,519
Finance costs paid on bank refinancing		**(593)**	–
Finance costs paid		**(934)**	(419)
Equity dividends paid		**(3,279)**	(2,977)
Proceeds from issue of ordinary shares (net)		**141**	324
Net cash inflow from financing activities		**1,564**	5,447
Net increase / (decrease) in cash and cash equivalents in the year		**8,672**	(6,396)
Cash and cash equivalents at beginning of the year		**4,990**	11,386
Cash and cash equivalents at end of the year		**13,662**	4,990

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

Accounting Policies

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

Basis of accounting
The preliminary financial information does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 but is derived from statutory accounts for the years ended 31 July 2019 and 31 July 2018, both of which are audited. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year ended 31 July 2019. While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), this announcement does not in itself contain sufficient information to comply with IFRSs.

The statutory accounts for the year ended 31 July 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting and can be obtained from the investor section of the Company's website at http://www.loknstore.co.uk.

Statutory accounts for the year ended 31 July 2018 have been filed with the Registrar of Companies. The auditor's report for the year ended 31 July 2019 was unqualified, did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

Standards adopted in the year

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

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

IFRS15 has its own section below but in summary the Group has concluded revenue recognition will be unchanged under IFRS 15 although there is additional reporting of separate revenue streams in Note 1 which are aligned with the Group's accounting policies on revenue recognition.

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

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

Standards, interpretations and amendments ***Endorsed***		**Effective date: Periods commencing on or after**
IFRS 16	Leases	1 Jan 2019

Standards, interpretations and amendments ***Not Yet Endorsed***		**Effective date: Periods commencing on or after**
IFRIC 23	Uncertainty over income tax treatments	1 Jan 2019

Subject to the adoption in due course of IFRS 16, the directors do not anticipate that the adoption of these Standards will have a significant impact on the financial statements of the Group. With regard to IFRS 16, although the Group will not be adopting the Standard until its year ended 31 July 2020 the Directors consider that this will have a significant impact on the financial statements of the Group at that time and have provided an initial overview of the impact on the 2020 financial statements with supporting calculations and which is set out on pages 19 to 21.

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

Basis of consolidation

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

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

Going concern

The Directors can report that, based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and the Group have adequate resources and facilities to continue in operational existence for the foreseeable future based on Group cash balances and cash equivalents of £13.7 million (2018: £5.0 million), undrawn committed bank facilities at 31 July 2019 of £32.0 million (2018: £12.7 million), and cash generated from operations in the year ended 31 July 2019 of £8.1 million (2018: £7.0 million).

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

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

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

IFRS 15 - Revenue recognition

IFRS 15 replaces IAS18 and is the applicable standard that sets the rules for the recognition of revenue. The standard is effective for financial years commencing on or after 1 January 2018 and therefore applies for the first time for the current financial year 31 July 2019. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

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

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

a) Self-storage revenue

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

b) Retail sales

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

c) Insurance

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

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

The key characteristics of a block policy are that:

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

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

d) Management fee income

Management fees earned for managing stores not owned by the Group are recognised over the period for which the services are provided. Fees are invoiced monthly based on revenue performance. Additional performance fees may be earned if an individual Managed Store EBITDA performance exceeds agreed thresholds. Periodic fees may also be earned for additional specific services provided and are invoiced when that service has been completed. Revenue is recognised for each performance condition once that condition has been met.

e) Serviced archive and records management

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

Critical accounting estimates and judgements

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

a) Estimate of fair value of trading properties

The Group commissions an external valuation of its self-storage stores. This valuation uses a discounted cash flow methodology which is based on current and projected net operating income. Principal assumptions underlying management's estimation of the fair value are those relating to stabilised occupancy levels expected future growth in storage rents and operating costs, maintenance requirements, capitalisation rates and discount rates. A more detailed explanation of the background and methodology adopted in the valuation of the Group's trading properties is set out in note 10b. The carrying value of land and buildings held at valuation at the reporting date was £133.5 million (2018: £108.5 million) as shown in the table in note 10(b).

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

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

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

c) Classification of self-storage facilities as owner occupied properties rather than investment properties.
The Directors consider that Lok'nStore Group Plc is the parent company of a "Trading business" and is not wholly or mainly engaged in making investments. The holding of land is not a core activity.

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

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

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

Furthermore the Group has always and continues to comply with all of the usual accounting and tax protocols consistent with a trading business. Lok'nStore operates 34 stores mainly in Southern England. Of the 34 stores, Lok'nStore owns the freehold interest in 15 stores, 8 of the stores are held under commercial leases, with the remaining 11 managed stores operating under management contracts for third party owners. One of the features of Lok'nStore's strategy is to increase the number of stores we manage for third parties selling our expertise in storage solutions management, operating systems and marketing, through management fees rather than retaining a proprietary interest in land and buildings.

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

Notes to the Financial Statements
For the year ended 31 July 2019

1(a) Revenue
Analysis of the Group's revenue is shown below:

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

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

2(a) Property, staff, distribution and general costs

	Group 2019 £'000	Group 2018 £'000
Property and premises costs	**4,022**	3,647
Staff costs	**4,111**	3,832
General overheads	**1,244**	1,079
Sub-total operating costs	**9,377**	8,558
Retail products cost of sales (see note 2b)	**180**	181
	9,557	8,739

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

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

2(c) Other income and costs

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

2019:

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

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

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

2018:

4 Carried interest fees receivable:

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

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

3 Finance income

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

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

4 Finance costs

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

5 Profit before taxation

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

Comprising:		
Audit services	**66**	67
Non-audit services	**69**	57
	135	124

6 Employees

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

	Group 2019 £'000	Group 2018 £'000
Costs for the above persons:		
Wages and salaries	**3,446**	3,170
Social security costs	**424**	395
Pension costs	**85**	100
	3,955	3,664
Share based remuneration (options)	**46**	33
	4,001	4,697

Share based remuneration is separately disclosed in the statement of comprehensive income. Wages and salaries of £90,436 (2018: £149,492) have been capitalised as additions to property, plant and equipment as they are directly attributable to the acquisition of these assets. All other employee costs are included in staff costs in the statement of comprehensive income.
In relation to pension contributions, there was £13,217 (2018: £13,894) outstanding at the year-end. There were no employees employed by Lok'nStore Group Plc in the year (2018: nil).

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

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

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

The highest paid Director did not accrue any pension rights during the year. The benefits in kind all relate to medical insurance premiums paid on behalf of the Directors. The number of Directors to whom retirement benefits are accruing under money purchase pension schemes in respect of qualifying service is two (2017: two).

7 Taxation

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

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

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

In addition to the amount charged to profit or loss for the year, deferred tax relating to the revaluation of the Group's properties of £2.3 million (2018: £2.7 million) has been recognised as a debit/credit directly in other comprehensive income (see note 19 on deferred tax).

8 Dividends

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

In respect of the current year the Directors propose that a final dividend of 8.33 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £2.4 million based on the number of shares in issue at 17 October 2019 as adjusted for shares held in the Employee Benefits Trust. This is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 28 November 2019; the record date 29 December 2019; with an intended payment date of 10 January 2020. The final deadline for Dividend Reinvestment Election (DRIP) is 13 December 2019.

9 Earnings per share

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

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

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

623,212 (2018: 623,212) shares are held in the Employee Benefit Trust (see note 24).

[1] Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented. Details of share options are included in note 21

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

10(a) Intangible assets

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

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

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

10(b) Property, plant and equipment

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

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

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

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

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

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

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

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

Market Valuation of Freehold and Operating Leasehold Land and Buildings

On 31 July 2019 a professional valuation was prepared by Jones Lang LaSalle Limited (JLL) in respect of 15 freehold, and 8 operating leasehold properties. The valuation was prepared in accordance with the RICS Valuation – Global Standards 2017, published by The Royal Institution of Chartered Surveyors ("the RICS Red Book") and the valuation methodology is explained in more detail below. The valuations were prepared on the basis of Fair Value as a fully equipped operational entity having regard to trading potential. The valuation was provided for accounts purposes and as such, is a Regulated Purpose Valuation as defined in the Red Book. In compliance with the disclosure requirements of the RICS Red Book JLL have confirmed that:

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

The valuation report indicates a total valuation for all properties valued of £162.7 million (2018: £146.2 million) of which £144.0 million (2018: £128.0 million) relates to freehold properties, and £18.7 million (2018: £18.2 million) relates to properties held under operating leases.

Freehold land and buildings are carried at valuation in the statement of financial position. Short leasehold improvements at properties held under operating leases are carried at cost rather than valuation in accordance with IFRS.

For the trading properties the valuation methodology explained in more detail below is based on fair value as fully equipped operational entities, having regard to trading potential. Of the £144.0 million valuation of the freehold and long leasehold properties £13.0 million (2018: £11.7 million) relates to the net book value of fixtures, fittings and equipment, and the remaining £131.0 million (2018: £116.3 million) relates to freehold and long leasehold properties.

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

Valuation Methodology

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

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

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

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

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

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

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

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

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

For leaseholds the same methodology has been used as for freehold property, except that no sale of the assets in the 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 11 years and 0 month as at 31 July 2019 (11 years and 1 month: 31 July 2018). Valuations for stores held under operating leases are not reflected in the statement of financial position and the assets in relation to these stores are carried at cost less accumulated depreciation.

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

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

Directors' valuation of land and property

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

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

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

11 Acquisition of Hedge End

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

Hedge End Net assets acquired

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

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

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

12 Disposal of Saracen Datastore Limited

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

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

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

Key amounts relating to the discontinued operation are as follows:

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

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

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

The profit on disposal is included in profit on discontinued operations in the consolidated statement of comprehensive income. The Group believes that Substantial Shareholder Relief would be available on the gain made on the disposal of the shares. Proceeds from disposal of discontinued operation (net of disposal costs and cash included in sale) is presented as an investing activity in the consolidated statement of cash flows.

13 Investments

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

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

		% of shares and voting rights held		
	Class of shareholding	Directly	Indirectly	Nature of entity
Lok'nStore Limited * #	Ordinary	100	–	Self-storage
Lok'nStore Trustee Limited[1] * ♦	Ordinary	–	100	Trustee
Southern Engineering and Machinery Company Limited[1] * #	Ordinary	–	100	Self-storage
Semco Machine Tools Limited[2] * #	Ordinary	–	100	Dormant
Semco Engineering Limited[2] * #	Ordinary	–	100	Dormant
Saracen Datastore Limited[1] # @	Ordinary	–	100	Serviced Document Storage
ParknCruise Limited[1] ♦	Ordinary	–	100	Dormant
The Box Room (Self Storage) Limited [1] ♦	Ordinary	–	100	Self-storage

[1] These companies are subsidiaries of Lok'nStore Limited.

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

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

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

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

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

14 Inventories

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

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

15 Trade and other receivables

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

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

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

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

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

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

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

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

Included in the Group's trade receivables balance are receivables with a carrying amount of £55,049 (2018: £57,006) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group holds a right of lien over its self-storage customers' goods if these debts are not paid. The average age of these receivables is 51 days past due (2018: 51 days past due).

Ageing of past due but not impaired receivables

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

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

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

Ageing of impaired trade receivables	**Group 2019 £'000**	Group 2018 £'000
0–30 days	**–**	–
30–60 days	**–**	–
60+ days	**191**	165
Total	**191**	165

16 Trade and other payables

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

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

17 Financial instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which include the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity. The Group's banking facilities require that management give regular consideration to interest rate hedging strategy. The Group has complied with this during the year.

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

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

	Group 2019 £'000	Group 2018 £'000
Gross borrowings	**(42,972)**	(37,335)
Cash and cash equivalents	**13,662**	4,990
Net debt	**(29,310)**	(32,345)
Total equity	**117,158**	103,251
Net debt to equity ratio	**25.1%**	31.3 %

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

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

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

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

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

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

Cash balances held in current accounts attract no interest but surplus cash is transferred daily to a treasury deposit account which earns interest at the prevailing money market rates[1]. All amounts are denominated in Sterling. The balances at 31 July 2019 are as follows:

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

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

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

D Interest rate sensitivity analysis
Over the longer term, significant changes in interest rates may have an impact on consolidated earnings.

At 31 July 2019, it is estimated that an increase of one percentage point in interest rates would have reduced the Group's annual profit before tax by £429,717 (2018: £373,345) and conversely a decrease of one percentage point in interest rates would have increased the Group's annual profit before tax by £429,717 (2018: £373,345). There would have been no effect on amounts recognised directly in other comprehensive income. The sensitivity has been calculated by increasing by 1% the average variable interest rate of 2.11% applying to the variable rate borrowings of £43.0 million in the year (2018: £37.3 million / 1.85%).

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

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

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

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

The credit risk on liquid funds is limited because the counterparty is a bank with high credit ratings assigned by international credit-rating agencies, in line with the Group's policy which is to borrow from major institutional banks when arranging finance. The Group's maximum exposure to credit risk at 31 July 2019 was £3.38 million (2018: £3.06 million) on receivables and £13.67 million (2018: £4.99 million) on cash and cash equivalents.

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

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

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

I Fair values of financial instruments

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

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

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

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

18 Borrowings

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

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

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

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

19 Deferred tax

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

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

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

20 Share capital

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

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

	Called up, allotted and fully paid Number	Called up, allotted and fully paid Number
Number of shares at start of the year	**29,498,615**	29,302,923
Options exercised during the year	**85,171**	195,692
Number of shares at end of the year	**29,583,786**	29,498,615

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

21 Equity settled share-based payment plans

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

The Company has the following share options:

2019 Summary	As at 31 July 2018 No of options	**Granted**	**Exercised**	**Lapsed/ surrendered**	**As at 31 July 2019 No of options**
Unapproved Share Options	**817,551**	3,300	(70,000)	–	**750,851**
Unapproved Share Options (PPP Scheme)	**140,000**	400,000	–	–	**540,000**
Approved CSOP Share Options	**92,199**	15,673	(9,952)	(2,981)	**94,939**
Total	**1,049,750**	418,973	(79,952)	(2,981)	**1,385,790**

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

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

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

The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after two and a half, three or five years, subject to the performance criteria attached to the options.

Under the CSOP Approved Share Option scheme and the Unapproved Share Options scheme, the exercise price of the options is equal to the closing mid-market price of the shares on the trading day previous to the date of the grant. Exercise of an option is subject to continued employment or in the case of unapproved options at the discretion of the Board. The life of each option granted is six and a half to seven years. There are no cash settlement alternatives.

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

Under the Partnership Performance Plan the expected volatility is based on a historical review of share price movements over a period of time, prior to the date of grant, commensurate with the expected term of each award. The expected term is assumed to be 12.4 years, which is halfway between vesting and lapse. The vesting date is based upon the assumption that the CAD and/or NAV targets are met at the same time as the share price target is met, and the lapse date is the fifteenth anniversary of the grant. The risk free rate of return is the UK gilt rate at date of grant commensurate with the expected term (i.e. 12.4 years).

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

22(a) Other reserves

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

The merger reserve represents the excess of the nominal value of the shares issued by Lok'nStore Group plc over the nominal value of the share capital and share premium of Lok'nStore Limited as at 31 July 2001. The other distributable reserve and the capital redemption reserve arose in the year ended 31 July 2004 from the purchase of the Company's own shares and a cancellation of share premium.

Share based payment reserve
Under IFRS2 there is the option to make transfers from the share based payment reserve to retained earnings in respect of accumulated share option charges where the options have either been exercised or have lapsed post-vesting. The total amounts calculated and accordingly transferred to retained earnings amounted to £27,140 (2018: £109,218).

22(b) Other reserves

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

23(a) Retained earnings

Group	Retained earnings before deduction of own shares £'000	Own shares (note 24) £'000	Retained earnings Total £'000
1 August 2017	**18,664**	**(500)**	**18,164**
Profit attributable to owners of			
Parent for the financial year	3,757	–	3,757
Transfer from revaluation reserve	291	–	291
(Additional depreciation on revaluation)			
Transfer from share based payment reserve (Note 22a)	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	**19,844**	**(500)**	**19,344**
Profit attributable to owners of			
Parent for the financial year	5,562	–	5,562
Transfer from revaluation reserve	304	–	304
(Additional depreciation on revaluation)			
Transfer from share based payment reserve (Note 22a)	51	–	51
Dividend paid	(3,279)	–	(3,279)
Asset disposals	4,927	–	4,927
31 July 2019	**27,409**	**(500)**	**26,909**

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

The Own Shares Reserve represents the cost of shares in Lok'nStore Group plc purchased in the market and held in the Employee Benefit Trust to satisfy awards made under the Group's share incentive plan and shares purchased separately by Lok'nStore Limited for Treasury Account.

23(b) Retained earnings

Company	Retained earnings before deduction of own shares £'000	Own shares (note 24) £'000	Retained earnings Total £'000
1 August 2017	**3,166**	**–**	**3,166**
Profit attributable to owners of			
Company for the financial year			
Transfer from share based payment reserve (Note 22a)			
	3,572	–	3,572
Disposal of treasury shares – restated	109	–	109
Dividend paid	(2,977)	–	(2,977)
31 July 2018	**3,870**	**–**	**3,870**
Profit attributable to owners of			
Company for the financial year	3,774	–	3,774
Transfer from share based payment reserve (Note 22a)			
	51	–	51
Dividend paid	(3,279)	–	(3,279)
31 July 2019	**4,416**	**–**	**4,416**

24 Own shares

	EBT shares Number	EBT shares £	Treasury shares Number	Treasury shares £	Own shares total £
31 July 2018 and 31 July 2019	**623,212**	**499,910**	–	–	**499,910**

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

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

As at 31 July 2019, the Trust held 623,212 (2018: 623,212) ordinary shares of 1 pence each with a market value of £3,284,327 (2018: £2,508,428). No shares were transferred out of the scheme during the year (2018: nil).

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

25 Cash flows

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

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

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

Net debt is defined as non-current and current borrowings, as detailed in note 18 less cash and cash equivalents.

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

26 Commitments under operating leases

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

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

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

27 Related party transactions

The Company provides share options for the employees of Lok'nStore Limited. The capital contributions arising from these share-based payments are separately disclosed under investments in note 11.

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

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

As part of a review of its management personnel the group recognised a number of management personnel that it felt were important to retain within the business in order for it to achieve its strategic plan. Accordingly these were recognised as key personnel and are participants in the new Long Term Performance Plan (see note 21). They are included in the table above. For consistency the 2018 figures include their comparative figures.

Group Director shareholdings – dividends received

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

Director's Dividend Income	**Holding**	**Final 2018**	**Interim 2019**	**Total 2019**	Total 2018
		7.67 pence per share	**3.33 pence per share**		
	No.	**£**	**£**	**£**	£
Executive:					
A Jacobs	5,204,600	399,193	191,009	**590,202**	536,144
RA Davies	64,037	4,827	2,339	**7,166**	6,389
N Newman-Shepherd	14,312	1,098	472	**1,570**	538
Non-Executive:					
SG Thomas	1,530,000	136,526	56,151	**192,677**	184,740
RJ Holmes	273,674	20,991	10,044	**31,035**	28,188
ETD Luker	28,800	2,209	1,057	**3,266**	1,421
CP Peal	539,653	39,109	19,805	**58,914**	52,897
	7,655,076	**603,953**	**280,877**	**884,830**	**810,317**

Managed Stores – Group Director shareholdings

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

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

28 Capital commitments and guarantees

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

29 Bank borrowings

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

30 Events after the reporting date

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

Our Stores

Head Office – Lok'nStore plc 112 Hawley Lane Farnborough, Hampshire GU14 8JE Tel 01252 521010 www.loknstore.co.uk www.loknstore.com	Central Enquiries 0800 587 3322 info@loknstore.co.uk www.loknstore.co.uk

Owned Trading Stores

Basingstoke, Hampshire Crockford Lane Chineham Basingstoke Hampshire RG24 8NA Tel 01256 474700 basingstoke@loknstore.co.uk	**Bristol, Gloucestershire** Longwell Green Trade Park Aldermoor Way Bristol Gloucestershire BS30 7ET Tel 0117 967 7055 Bristol@loknstore.co.uk	**Cardiff, Wales** 234, Penarth Road Cardiff Wales CF11 8LR Tel 0292 022 1901 cardiff@loknstore.co.uk	**Eastbourne, East Sussex** Unit 4, Hawthorn Road Eastbourne East Sussex BN23 6QA Tel 01323 749222 eastbourne@loknstore.co.uk
Fareham, Hampshire 26 + 27 Standard Way Fareham Industrial Park Fareham Hampshire PO16 8XJ Tel 01329 283300 fareham@loknstore.co.uk	**Farnborough, Hampshire** 112 Hawley Lane Farnborough Hampshire GU14 8JE Tel 01252 511112 farnborough@loknstore.co.uk	**Gillingham, Kent** Courtney Road Gillingham Kent ME8 0RT Tel 01634 366044 gillingham@loknstore.co.uk	**Harlow, Essex** Edinburgh Way Temple Fields Harlow Essex CM20 2GF Tel 01279 882366 harlow@loknstore.co.uk
Hedge End, Southampton Units 2 & 3 Waterloo Industrial Estate Flanders Rd Hedge End Southampton SO30 2QT Tel 01489 787005 HedgeEnd@loknstore.co.uk	**Horsham, West Sussex** Blatchford Road Redkiln Estate Horsham West Sussex RH13 5QR Tel 01403 272001 horsham@loknstore.co.uk	**Luton, Bedfordshire** 27 Brunswick Street Luton Bedfordshire LU2 0HG Tel 01582 721177 luton@loknstore.co.uk	**Maidenhead, Berkshire** Stafferton Way Maidenhead Berkshire SL6 1AY Tel 01628 878870 maidenhead@loknstore.co.uk
Milton Keynes, Buckinghamshire Etheridge Avenue Brinklow Milton Keynes Buckinghamshire MK10 0BB Tel 01908 281900 miltonkeynes@loknstore.co.uk	**Northampton Central** 16 Quorn Way Grafton Street Industrial Estate Northampton Northamptonshire NN1 2PN Tel 01604 629928 nncentral@loknstore.co.uk	**Northampton Riverside** Units 1–4, Carousel Way Northampton Northamptonshire NN3 9HG Tel 01604 785522 northampton@loknstore.co.uk	**Poole, Dorset** 50 Willis Way Fleetsbridge Poole Dorset BH15 3SY Tel 01202 666160 poole@loknstore.co.uk
Portsmouth, Hampshire Rudmore Square Portsmouth Hampshire PO2 8RT Tel 02392 876783 portsmouth@loknstore.co.uk	**Reading, Berkshire** 251 A33 Relief Road Reading Berkshire RG2 0RR Tel 01189 588999 reading@loknstore.co.uk	**Southampton, Hampshire** Third Avenue Southampton Hampshire SO15 0JX Tel 02380 783388 southampton@loknstore.co.uk	**Sunbury, Middlesex** Unit C, The Sunbury Centre Hanworth Road Sunbury on Thames Middlesex TW16 5DA Tel 01932 761100 sunbury@loknstore.co.uk
Tonbridge, Kent Unit 6 Deacon Trading Estate Vale Road Tonbridge Kent TN9 1SW Tel 01732 771007 tonbridge@loknstore.co.uk	**Wellingborough, Northamptonshire** 19/21 Whitworth Way Wellingborough Northamptonshire NN8 2EF Tel 01634 366044 wellingborough@loknstore.co.uk	**Ipswich** Part of Site 7 Futura Park Ipswich IP3 9QH Tel 01473 794940 ipswich@loknstore.co.uk	

Development locations – Lok'nStore owned Sites

Bedford 69 Cardington Road Bedford NK42 0BQ	**Bournemouth, Dorset** Land at Wessex Field Deansleigh Road Bournemouth Dorset BH7 7DU	**Cheshunt, Hertfordshire** Land lying on the South Side of Halfhide Lane Turnford Hertfordshire	**Leicester** Part of land forming part of Freemens Common Road Leicester LE2 7SL
Stevenage, Hertfordshire Part of Land at Plot 2000 Stevenage Business Park Gunnels Wood Road Stevenage Hertfordshire SG1 2BL	**Wolverhampton, Staffordshire** Land at Pantheon Park Wednesfield Way Wolverhampton Staffordshire WV11 3DR		

Managed stores - Trading

Aldershot, Hampshire 251, Ash Road Aldershot Hampshire GU12 4DD Tel 0845 4856415 aldershot@loknstore.co.uk	**Ashford, Kent** Wotton Road Ashford Kent TN23 6LL Tel 01233 645500 ashford@loknstore.co.uk	**Broadstairs, Kent** Unit 2, Pyramid Business Park, Poorhole Lane, Broadstairs, Kent CT10 2PT Tel 01843 863253 broadstairs@loknstore.co.uk	**Chichester, West Sussex** 17, Terminus Road Chichester West Sussex PO19 8TX Tel 01243 771840 chichester@loknstore.co.uk
Crawley, West Sussex Sussex Manor Business Park Gatwick Road Crawley West Sussex RH10 9NH Tel 01293 738530 crawley@loknstore.co.uk	**Crayford, Kent** Block B Optima Park Crayford Kent DA1 4QX Tel 01322 525292 crayford@loknstore.co.uk	**Dover, Kent** Honeywood Parkway Whitfield Dover CT16 3FJ Tel 01304 827353 dover@loknstore.co.uk	**Exeter** 1 Matford Park Road Exeter Devon EX2 8ED Tel 01392 823989 Exeter@loknstore.co.uk
Hemel Hempstead, Hertfordshire Fortius Point, 47, Maylands Avenue Hemel Hempstead Hertfordshire HP2 7DE Tel 01442 240768 hemelhempstead@loknstore.co.uk	**Swindon, Wiltshire** Kembrey Street Elgin Industrial Estate Swindon Wiltshire SN2 8UY Tel 01793 421234 swindoneast@loknstore.co.uk	**Woking, Surrey** Marlborough Road Woking Surrey GU21 5JG Tel 01483 378323 woking@loknstore.co.uk	

Managed stores - Under Development

Gloucester Land at Triangle Park Metz Way Gloucester GL4	**Warrington, Cheshire** Land at Winwick Road, Warrington Cheshire WA2 7PF		