# Lok’nStore Group Plc

## Interim Report

For the six months to 31 January 2013

Stock code: LOK


www.loknstore.com

# Welcome to
# Lok'nStore Group Plc

## Introduction

Lok'nStore Group Plc is one of the leading companies in the fast growing UK self storage market. We have been listed on the Alternative Investment Market (AIM) since June 2000, and before that on the OFEX market from 1997. We opened our first self storage centre in Horsham in February 1995 and we have grown consistently, currently operating 23 stores in Southern England. Another 2 self storage centres will open in the coming year.

## Our Business

We offer self storage and serviced document management. Self storage is available to both household and business customers at our highly branded Lok'nStore centres. Each centre is strategically located, mainly in the affluent South East of England in prominent locations within key towns and cities.

We recently acquired Saracen records management, and can now offer businesses anything from secure storage of one media tape, to full management of their business documentation with 24 hour retrieval. We excel in offering the best in customer service at competitive prices for both our Lok'nStore and Saracen customers.


Use your phone's barcode app to go to our website

For more information on Lok'nStore visit our website at **www.loknstore.co.uk**

# Highlights

For the year ended 31 July 2013

## Financial Highlights

- Revenue £6.55 million up 2.2%
(six months to 31.1.2012: £6.41 million)
- EBITDA* £2.1 million up 9.2%
(six months to 31.1.2012: £1.93 million)
- Operating profit £1.34 million up 36.2%
(six months to 31.1.2012: £0.99 million)
- Profit before tax £0.77 million up 64.2%
(six months to 31.1.2012: £0.47 million)
- Interim dividend 1.67 pence per share up 67%
(Interim 2012: 1 penny per share)

*EBITDA is earnings before interest, taxation, depreciation, amortisation, share based payments and one-off professional costs

## Operational Highlights

**Self-storage:**

- Self-storage revenue £5.62 million up 3.6%
(six months to 31.1.2012: £5.42 million)
- Self-storage unit occupancy up 8.4%
- Occupancy of self-storage units increased to 60.4% of current lettable area (31.1.2012: 55.9%)
- Store EBITDA £2.69 million up 7.8%
(six months to 31.1.2012: £2.48 million)
- Store EBITDA profit margins up to 48.3%
(six months to 31.1.2012: 46.2%)
- Significant benefits being seen from recent harmonisation of VAT across the sector

## Property Highlights

- New managed store in Crawley commenced trading in November 2012
- Sale and manage back of Ashford store for 99% of valuation at £2.9 million in March 2013
- Construction started at state of the art Maidenhead store scheduled to open in late 2013

## Key Metrics

- Loan to value ratio 32.7%[1] (31.1.2012: 31.9%)
- Funds from operations[2] £1.73 million = 13.9 pence per share up 3%
(31.1.2012: 13.5 pence per share)
- Adjusted net asset value £2.30 per share up 2 pence since July 2012[3]
(31.1.2012: £2.30 per share)

1 Calculation based on net debt of £26.2 million (31.1.12: £25.4 million) and total property value of £80.0 million (31.1.12: £79.5 million) as set out on page 5
2 Funds from Operations ('FFO') calculated as EBITDA minus Net Finance Cost on operating assets
3 31.1.2013 Adjusted NAV £2.31 per share on a like for like basis (after adjusting for 'fair value' liability of interest rate swaps taken out during the year)

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

"Lok'nStore has traded very well during the period and the harmonisation of VAT across the UK self-storage sector has supported this growth. Activity levels across the portfolio have been excellent, reflected by our strong self-storage unit occupancy growth of 8.4% year-on-year. We expect this momentum to continue into the second half.

Revenue and occupancy growth from our existing stores, combined with the opening of the new Crawley, Maidenhead and Aldershot stores take us to 25 stores, and will provide continued impetus for our sales growth.

Lok'nStore is a low-risk, stable, income producing asset with built-in growth and the Board's confidence in the outlook for the Group is reflected in the increase in the interim dividend by 67%."

# Chairman's Review

Simon G Thomas

**"Lok'nStore has traded very well during the period. Revenue and occupancy growth from our existing stores, combined with the opening of the new Crawley, Maidenhead and Aldershot stores, takes us to 25 stores, and will provide continued impetus for our sales growth."**

Simon G Thomas, Chairman

# Continued Momentum & Sales Growth

## Strong Performance

We are pleased to report another set of strong results for Lok'nStore Group for the six months ended 31 January 2013. Self-storage revenues are up 3.6%, self-storage unit occupancy is up 8.4% and Group EBITDA is up 9.2% on the same period last year. With tight control over capital expenditure and operating costs, the Group's margins, operating profits and cash flow have all increased to record levels.

The new store in Crawley opened in November 2012. The development of the new Maidenhead store is now moving forward with its opening scheduled later in 2013. With the new managed Aldershot store also opening in 2014 we have secured good momentum for our sales and earnings from a low-geared and secure balance sheet.

## Sales Earnings and Occupancy Up

Revenue for the period was £6.55 million, up 2.2% year on year (31.1.2012: £6.41 million). Self-storage revenue for the period was £5.62 million up 3.6% (31.1.2012: £5.42 million). During the year overall occupancy increased by 6.1% while pricing decreased 1.9%, as a result of our well positioned offer and the harmonisation of VAT across the UK self-storage market.

The occupancy of the self-storage units increased 8.4% to 60.4% (31.1.2012: 55.9%) of current lettable area.

We again managed to lower our operating costs, and thus increased the overall EBITDA margin across all stores from 46.2% to 48.3%. The EBITDA margins of the freehold stores increased to 60.6% (31.1.2012: 58.1%) and the leasehold store margins increased to 33.2% (31.1.2012: 30.7%).

Total store EBITDA in the self-storage business, a key performance indicator of profitability and cash flow, increased 7.8% to £2.69 million (31.1.2012: £2.50 million). Group operating profit for the year is up 36.2% to £1.34 million (31.1.2012: £0.99 million).

Basic earnings per share were 1.96 pence, up 72% (31.1.2012: 1.14 pence per share). Diluted earnings per share were 1.95 pence (31.1.2012: 1.13 pence per share).

## Ancillary Sales

Ancillary sales which consist of boxes and packaging materials, insurance and other sales, increased 2.7% over the period accounting for 10.3% of self-storage revenues (31.1.2012: 10.3%). These ancillary sales are increasingly focused on insurance which increases the overall profit margin of these sales.

We continue to strongly promote our insurance to new customers with the result that over 89% of new customers purchased our insurance over the period. This compares with 72% (31.1.2012: 69%) of our total customer base who take our insurance, and this difference provides us with an opportunity for built-in growth as our customer base turns over.

## Sale and manage-back of Ashford store

After the period end on 28 March 2013, Lok'nStore completed the sale of its store in Ashford, Kent for £2.9 million in cash.

Lok'nStore will continue to manage the store as a branded Lok'nStore operation on behalf of the investor, and will receive a management fee, as well as an additional performance fee should the store beat certain targets or is ultimately sold. The sale and manage-back contract of the Ashford store will increase the number of Lok'nStore managed stores to four on behalf of three different clients.

We achieved a sale price equivalent to 99.3% of our latest Cushman & Wakefield valuation and the structure of the deal allows us to raise capital and grow our operating footprint without stretching our balance sheet or diluting our equity.

## Dividend

Increasing cash flow, positive news on operational developments and security of funding prompted a re-evaluation of the dividend policy during 2012. Over past years we have maintained a steady dividend pay-out of one penny per share which was increased to 3 pence per share in 2011 and then to 5 pence per share last year. The interim dividend this year is to be increased by 67% to 1.67 pence and we will adopt a progressive forward looking dividend policy following this step change. It is intended that the Company's future dividend payments will reflect the growth in the underlying cash generated by the business and will be declared at the interim and final stage, the interim dividend representing approximately one-third of the total for the year.

The total estimated interim dividend in respect of the current financial period is £417,394 (31.1.2012: £249,936) based on the number of shares currently in issue as adjusted for shares held in the Employee Benefit Trust and for shares held on treasury.

## VAT

From 1 October 2012 all UK self-storage facilities had to charge VAT on their services.

Unlike many operators in the self-storage industry who had disapplied VAT, Lok'nStore had always operated within the VAT regime and 'opted to tax' VAT on its storage services. Therefore this change had no direct impact on the Group or its customers.

However, most of our larger competitors were de-registered and are responding to this change either by increasing prices to help them absorb the tax or by reducing margins. This clearly has and will continue to have a positive effect on Lok'nStore's competitive position as evidenced by the 8.4% increase in occupancy compared to the same period last year.

## Appointment of Director

On 19 December 2012, Lok'nStore announced the appointment of Douglas Hampson as a Non-Executive Director of the Company. Douglas (66) joins the Board following his recent investment in the Company. He has spent over 30 years in the self-storage industry, having set up the first self-storage facility in Europe in 1980. Over the last 30 years Douglas has founded and sold a number of self-storage businesses and his extensive knowledge of founding, running and selling self-storage businesses will be a valuable addition to our Board. I am pleased to welcome Douglas to our Board.

During the period Ian Wright of Laxey Partners stood down from the Board following the sale of all of Laxey Partners' holding in the Company.

## Marketing

During the period our marketing efforts continued to focus on the Internet which accounts for an increasing proportion of our enquiries. For this period, Internet enquiries were up 96% year on year and total enquiries up 59% year on year.

Internet marketing is a very dynamic area and we are committed to developing our presence in this market. We believe it provides a strong competitive advantage for the major operators with many stores like us over those with smaller operations. This is particularly important for our third party store management service as we are able to generate more enquiries from the website at a manageable cost than an individual operator can.

Despite the inexorable rise of Internet marketing, around 35% (31.1.2012: 41%) of our customers still come from passing traffic and signage, so work on the visibility of our stores is also very important in our marketing effort. With their prominent positions, distinctive design and bright orange elevations, our stores raise the profile of the whole Lok'nStore brand.

## Document storage business

Following the purchase of Saracen, a serviced document storage company, in 2011, Lok'nStore has now completed the integration of the back office systems as well as the marketing and HR functions. There are further property cost savings to be achieved in 2013 as the Saracen business consolidates its warehouse capacity. After this consolidation we will still have the capacity to double the number of boxes stored.

In line with our overall Company and Group values we have adopted a more customer friendly strategy by simplifying our billing structure and pre-agreeing price increases to give our customers more certainty. This investment has resulted in excellent customer feedback and puts us in a good position to win new business, but has resulted in a 5.5% dip in sales in the period. We believe this focus on a customer facing strategy will create long term value for customers and shareholders as our customer base grows.

## Property and leases

At the period end we operated 21 of our own stores with capacity of around 1.1 million sq. ft. of storage space when fully fitted. Twelve stores were held freehold or long leasehold and 9 were leasehold. Two further sites at Woking and Crawley are run under management contracts. With the managed store in Aldershot and the owned store in Maidenhead opening in the coming financial year, the stores under Lok'nStore's management will increase to 25.

At the period end the average length of the seven leases which have been valued at July 2012 is 14 years (31.1.2012: 14 years and 8 months). Eight out of the 9 of our leasehold stores are inside the Landlord and Tenant Act providing us with a strong security of tenure. The leasehold sites produced 31% of the store EBITDA in the period (31.1.2012: 30%).

# Chairman's Review

continued

## Management Contracts:

**Aldershot**: In June 2012 Lok'nStore signed an agreement to develop and manage a new self-storage centre in Aldershot, Hampshire. Lok'nStore will contribute approximately £2.5 million of development funds of the estimated £4.5 million total cost of development of this brand new purpose-built store, and will manage the building and operation of the store. The other investors, including the original landowner, have invested the remaining £2 million. The property already has the benefit of a planning permission for a self-storage facility and we are currently working to improve and enhance the existing planning permission prior to commencement of construction works. Lok'nStore will generate a return by receiving a return on its capital and by charging a management fee for the construction, operation and branding of the store.

The store will be located in a prominent location on the main Aldershot roundabout above the A331 with significant levels of passing traffic, and is expected to commence trading in the first half of 2014.

**Crawley**: In July 2012, the Group signed an agreement to manage a new self-storage centre in Crawley, Sussex on behalf of an investor. The store opened in November 2012 and is located in a prominent location facing on to a busy roundabout on Gatwick Road in the centre of the Manor Royal business area. Lok'nStore is generating a return by charging a management fee with performance incentives.

## Development Sites

Lok'nStore owns four development sites all with relevant planning permissions, two of which are for replacement stores at Reading and Southampton, and two are new locations in Maidenhead and Portsmouth North Harbour. We are now building the Maidenhead store and closely examining plans for moving forward at Reading. The Group has no immediate plans to progress development works at Portsmouth North Harbour and Southampton.

**Maidenhead**: This is a long leasehold site (the lease term runs until April 2076) of 1.6 acres. Lok'nStore is now building a new state of the art self-storage centre which provides space on the ground floor for a Lidl food store which is anticipated to increase the traffic by an estimated 1,000 cars a day. The new self-storage centre will have around 60,000 sq. ft. of self-storage space and is due to open in late 2013.

It is a highly visible site close to Maidenhead town centre and railway station and is very prominent to the retail park on the main road joining the town centre with the M4 motorway. The innovative financing of the scheme will require only a modest capital outlay from Lok'nStore and again allows us to continue to expand the Group's operating footprint without stretching the balance sheet. We believe Maidenhead is an excellent trading location, an affluent town right in the middle of our geographic coverage with little local competition. The town is also set to benefit from its position as the western terminal of Crossrail.

**Reading**: Lok'nStore has a planning permission for high-density residential development on the freehold site of its existing Reading store. This permission for 112 flats on the 0.66 hectare site was renewed on 4 October 2011 providing a further three years to execute on the project.

The Group also has planning permission for a new 53,500 sq. ft. self-storage centre on its site opposite the existing store, an increase in space of 29%. On 16 November 2011 this planning permission was also renewed providing a further three years to execute on this project. When market circumstances are appropriate the site of the existing store will be sold with the benefit of its permission for residential development and the proceeds will largely fund the development of the new store. The existing business will be transferred to the new store when it is complete. The prominence and modern look of the new store with its distinctive orange livery will position Lok'nStore in a highly visible and easily accessible location adjacent to the A33 at the gateway to Reading.

## Portfolio

These projects are part of our strategy of actively managing our operating portfolio to ensure we are maximising its value for shareholders. This includes strengthening our distinctive brand, increasing or decreasing the size and number of our stores, buying or selling our own freeholds, and moving or selling stores or sites when it will increase shareholder value. Our property team will continue to pursue further value creating asset management opportunities to secure our trading operations, to improve cash flow and to contain our property costs.

## Property Assets and Net Asset Value

Lok'nStore's freehold and operating leasehold properties were independently valued by Cushman & Wakefield (C&W) at £67.9 million as of 31 July 2012 and this valuation has been adopted at the period-end. At 31 January 2013, adding our development sites and stores under development our total property portfolio valuation is £80.0 million (31.1.2012: £79.5 million). This translates into an adjusted net asset value of £2.30 per share (31.1.2012: £2.30 per share). This rises to £2.31 per share on a like for like basis (after adjusting for the 'fair value' liability of interest rate swaps).

In due course the site of the existing Reading store is likely to be sold with the benefit of its permission for residential development and the proceeds will be reinvested in our new store pipeline. It is not the intention of the Directors to make any other significant disposals of operational self-storage centres, although individual disposals such as the sale of our Ashford store after the period-end may be considered where it is clear that added value can be created by recycling the capital into other opportunities.

Under IFRS the valuations of our freehold property assets are included in the Statement of Financial Position at their fair value, but the IFRS rules do not permit the inclusion of any valuation in respect of our leasehold stores to the extent that they are classified as operating leases. The value of our operating leases totals £11.8 million (31.1.2012: £12.3 million). Instead we have reported by way of a note the underlying value of these leasehold stores and adjusted our Net Asset Value ('NAV') calculation accordingly to include their value. This will ensure comparable NAV calculations.

## Analysis of Total Property Value

| | No of stores/sites | 31 January 2013 £'000 | No of stores/sites | 31 January 2012 £'000 | No of stores/sites | 31 July 2012 £'000 |
|---|---|---|---|---|---|---|
| Freehold stores at valuation | 12* | **56,050** | 11† | 55,670 | 12* | 56,050 |
| Leasehold at valuation | 7 | **11,830** | 7 | 12,310 | 7 | 11,830 |
| Subtotal | 19 | **67,880** | 18 | 67,980 | 19 | 67,880 |
| Sites in development at cost | 4 | **12,133** | 4 | 11,605 | 4 | 11,850 |
| Total | 23‡ | **80,013** | 22‡ | 79,585 | 23 | 79,730 |

* Includes the Swindon store previously held as leasehold (not previously valued by C&W) and now owned as a freehold
† Includes the current Reading store at its trading store valuation. The Reading site with planning permission for a new store is stated at cost and is included in sites in development at cost
‡ Two Leasehold stores were not valued (2012: two) as their remaining unexpired terms were insufficient to yield a value under the Cushman & Wakefield valuation methodology

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

## Adjusted Net Asset Value per Share

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

| Analysis of net asset value (NAV) | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2011 £'000 |
|---|---|---|---|
| Total non-current assets | **76,921** | 76,568 | 76,903 |
| Adjustment to include leasehold stores at valuation | | | |
| Add: C & W leasehold valuation* | **11,830** | 12,310 | 11,830 |
| Deduct: leasehold properties and their fixtures and fittings at NBV | **(3,795)** | (4,147) | (3,910) |
| | **84,956** | 84,731 | 84,823 |
| Add: current assets | **5,888** | 5,077 | 5,956 |
| Less: current liabilities | **(3,849)** | (4,090) | (4,106) |
| Less: borrowings | **(29,259)** | (28,159) | (29,223) |
| Less: derivative financial instruments | **(302)** | – | (496) |
| | **(27,522)** | (27,172) | (27,869) |
| Adjusted net assets before deferred tax provision | **57,434** | 57,559 | 56,954 |
| Deferred tax | **(10,469)** | (10,759) | (10,073) |
| Deferred tax arising on revaluation of leasehold properties† | **(1,848)** | (2,041) | (1,822) |
| Adjusted net assets | **45,117** | 44,759 | 45,059 |

| Shares in issue | Number '000 | Number '000 | Number '000 |
|---|---|---|---|
| Opening shares | **26,759** | 26,759 | 26,759 |
| Shares issued for the exercise of options | **–** | – | – |
| Closing shares in issue | **26,759** | 26,759 | 26,759 |
| Shares held in treasury | **(1,142)** | (1,142) | (1,142) |
| Shares held in EBT | **(623)** | (623) | (623) |
| Closing shares for NAV purposes | **24,994** | 24,994 | 24,994 |
| Adjusted net asset value per share after deferred tax provision | **£1.81** | £1.78 | £1.80 |
| Adjusted net asset value per share before deferred tax provision | **£2.30** | £2.30 | £2.28 |

* The seven leaseholds valued by Cushman & Wakefield are all within the terms of the Landlord and Tenant Act (1954) giving a high degree of security of tenure. The average length of the leases on the leasehold stores valued was 14 years at the period-end (31.1.2012 valuation: 14 years and 8 months).
† A deferred tax adjustment in respect of the uplift in the value of the leasehold properties has been included in the NAV calculation. 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.

# Chairman's Review

continued

## Cash Flow and Financing

At 31 January 2013 the Group had cash balances of £3.5 million (31.1.2012: £3.2 million).

There was £29.7 million of gross borrowings (31.1.2012: £28.5million) representing gearing of 67.2% (31.1.2012: 65.8%) on net debt of £26.2 million (31.1.2012: £25.4 million). After adjusting for the uplift in value of leaseholds which are stated at depreciated historic cost in the statement of financial position, gearing is 55.7% (31.1.2012: 54.3%). After adjusting for the deferred tax liability carried at period-end of £10.5 million (31.1.2012: £10.8 million) gearing drops to 45.5% (31.1.2012: 44.2%).

Cash inflow from operating activities before investing and financing activities was £1.5 million up 25% on the comparative period last year (31.1.2012: £1.1 million). As well as using cash generated from operations to fund some capital expenditure, the Group has a five year revolving credit facility. This provides sufficient liquidity for the Group's current needs. Undrawn committed facilities at the period-end amounted to £10.3 million (31.1.2012: £11.5 million).

Capital expenditure during the period totalled only £0.12 million with some modest expenditure at existing stores and in maximising the potential of the existing planning permissions. The Group has no further capital commitments beyond its £2.5 million development commitment at Aldershot and some minor works to existing properties.

## Management of Interest Rate Risk

At 31 January 2013 Lok'nStore had £29.7 million drawn against its £40 million revolving credit facility. Of this facility £20 million is now at a fixed interest rate, with £10 million fixed at a one month sterling LIBOR rate of 1.2% plus margin and £10 million fixed at a one month sterling LIBOR rate of 1.15% plus margin. With one month LIBOR around 0.5%, this leaves a balance of £9.7 million floating at a current all-in rate of around 2.85% and results in an overall weighted average rate of 3.3%. No arrangement fees were incurred when fixing the rates. The hedging arrangements are treated as an effective cash flow hedge and the fair value of the interest rate swaps is stated as a derivative financial instrument liability.

## Operating Costs

For the fifth year in a row we have again reduced our group operating costs for the period, (excluding cost of sales of retail products) down to £4.32 million for the period from the £4.35 million in the six months to 31.1.12. For the self-storage business operating costs amounted to £3.60 million for the period, a small decrease from the £3.62 million in the same period last year. We also reduced operating costs at Saracen by 1.5% compared to the same period last year. This highly disciplined approach to costs ensures that turnover growth we have achieved drops down to the bottom line.

As part of the development of the accounting and reporting systems we now report separately on the distribution costs specific to the Saracen business.

| Group | Increase/ (decrease) in costs % | **Six months 31 January 2013 £'000** | Six months 31 January 2012 £'000 | Year 31 July 2012 £'000 |
|---|---|---|---|---|
| Property costs | (1.5) | **1,924** | 1,954 | 3,895 |
| Staff costs | 2.7 | **1,759** | 1,706 | 3,432 |
| Overheads | (2.6) | **552** | 602 | 1,048 |
| Distribution costs | 0.2 | **88** | 85 | 165 |
| Total | (0.6) | **4,323** | 4,347 | 8,540 |

## Outlook

Lok'nStore is a strong business with a record of consistent profit growth and increasing cash generation. Revenue continues to grow against tightly controlled costs, and this together with the strong occupancy growth during the period provides continued momentum to EBITDA. Our innovative approach to financing new stores will enable us to grow our operating footprint to 25 stores by next year with limited capital expenditure, and the sale of our Ashford store close to its recent valuation underlines the strength of the asset base.

The Board's confidence in the outlook for the business is demonstrated by the increase in the interim dividend by 67%.

**Simon G Thomas**
Chairman
19 April 2013

# Consolidated Statement of Comprehensive Income

For the six months ended 31 January 2013

| | Notes | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £'000 |
|---|---|---|---|---|
| **Revenue** | 1 | 6,550 | 6,407 | 12,765 |
| Cost of sales of retail products | | (124) | (133) | (251) |
| Property and premises costs | | (1,924) | (1,954) | (3,895) |
| Staff costs | | (1,759) | (1,706) | (3,432) |
| General overheads | | (552) | (602) | (1,048) |
| Distribution | | (88) | (85) | (165) |
| Total costs | | (4,447) | (4,480) | (8,791) |
| **EBITDA*** | | 2,103 | 1,927 | 3,974 |
| Amortisation of intangible assets | | (83) | (83) | (165) |
| Depreciation based on historic cost | | (477) | (679) | (1,304) |
| Additional depreciation based on revalued assets | | (142) | (130) | (273) |
| | | (702) | (892) | (1,742) |
| Loss on sale of motor vehicles | | (14) | (3) | (4) |
| Equity settled share based payments | | (46) | (46) | (92) |
| | | (762) | (941) | (1,838) |
| **Operating profit*** | | 1,341 | 986 | 2,136 |
| Professional fees† | | – | (149) | (196) |
| **Profit before interest** | | 1,341 | 837 | 1,940 |
| Finance income | | 16 | 8 | 15 |
| Finance cost | 3 | (586) | (375) | (1,029) |
| **Profit before taxation** | | 771 | 470 | 926 |
| Income tax expense | 4 | (270) | (175) | (155) |
| **Profit for the financial period/year** | | 501 | 295 | 771 |
| **Profit attributable to:** | | | | |
| Owners of the parent | | 491 | 285 | 753 |
| Non-controlling interest | | 10 | 10 | 18 |
| | | 501 | 295 | 771 |
| **Other Comprehensive Income** | | | | |
| Increase in property valuation | | 354 | 183 | 48 |
| Deferred tax relating to decrease in property valuation | | (81) | (46) | 523 |
| Change in fair value of cash flow hedges | | 194 | – | (496) |
| Deferred tax relating to cash flow hedges | | (45) | – | 114 |
| **Other comprehensive income** | | 422 | 137 | 189 |
| **Total comprehensive income for the period/year** | | 923 | 432 | 960 |
| Attributable to: | | | | |
| Owners of the parent | | 913 | 422 | 942 |
| Non-controlling interest | | 10 | 10 | 18 |
| | | 923 | 432 | 960 |
| **Earnings per share** | | | | |
| Basic | 6 | 1.96p | 1.14p | 3.01p |
| Diluted | 6 | 1.95p | 1.13p | 2.99p |

* EBITDA and operating profit are defined in the accounting policies section of the notes to the interim financial statements.
† Professional fees are in respect of management contract set-up and bank loan refinancing.

# Consolidated Statement of Changes in Equity

**For the six months ended 31 January 2013**

| | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Revaluation reserve £'000 | Retained earnings £'000 | Attributable to owners of the parent £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **1 August 2011** | **268** | **698** | **12,858** | **20,161** | **4,587** | **38,572** | **254** | **38,826** |
| Profit for the period | – | – | – | – | 285 | 285 | 10 | 295 |
| Other comprehensive income: | | | | | | | | |
| Increase in asset valuation | – | – | – | 183 | – | 183 | – | 183 |
| Deferred tax relating to increase in asset valuation | – | – | – | (46) | – | (46) | – | (46) |
| | – | – | – | 137 | – | 137 | – | 137 |
| Total comprehensive income | – | – | – | 137 | 285 | 422 | 10 | 432 |
| Transactions with owners: | | | | | | | | |
| Dividend paid | – | – | (667) | – | – | (667) | – | (667) |
| Transfer additional dep'n on revaluation net of deferred tax | – | – | – | (97) | 97 | – | – | – |
| Equity share based payments | – | – | 46 | – | – | 46 | – | 46 |
| **31 January 2012** | **268** | **698** | **12,237** | **20,201** | **4,969** | **38,373** | **264** | **38,637** |
| Profit for the period | – | – | – | – | 469 | 469 | 8 | 477 |
| Other comprehensive income: | | | | | | | | |
| Decrease in property valuation | – | – | – | (135) | – | (135) | – | (135) |
| Deferred tax relating to decrease in asset valuation | – | – | – | 568 | – | 568 | – | 568 |
| Decrease in fair value of cash flow hedges | – | – | (496) | – | – | (496) | – | (496) |
| Deferred tax relating to cash flow hedges | – | – | 114 | – | – | 114 | – | 114 |
| | – | – | (382) | 433 | – | 51 | – | 51 |
| Total comprehensive income | – | – | (382) | 433 | 469 | 520 | 8 | 528 |
| Transactions with owners: | | | | | | | | |
| Dividend paid | – | – | (250) | – | – | (250) | – | (250) |
| Transfer additional dep'n on revaluation net of deferred tax | – | – | – | (107) | 107 | – | – | – |
| Equity share based payments | – | – | 46 | – | – | 46 | – | 46 |
| **1 August 2012** | **268** | **698** | **11,651** | **20,527** | **5,545** | **38,689** | **272** | **38,961** |
| Profit for the period | – | – | – | – | 491 | 491 | 10 | 501 |
| Other comprehensive income: | | | | | | | | |
| Increase in property valuation | – | – | – | 354 | – | 354 | – | 354 |
| Deferred tax relating to increase in asset valuation | – | – | – | (81) | – | (81) | – | (81) |
| Decrease in fair value of cash flow hedges | – | – | 194 | – | – | 194 | – | 194 |
| Deferred tax relating to cash flow hedges | – | – | (45) | – | – | (45) | – | (45) |
| | – | – | 149 | 273 | – | 422 | – | 422 |
| Total comprehensive income | – | – | 149 | 273 | 491 | 913 | 10 | 923 |
| Transactions with owners: | | | | | | | | |
| Dividend paid | – | – | (1,000) | – | – | (1,000) | – | (1,000) |
| Transfer additional dep'n on revaluation net of deferred tax | – | – | – | (109) | 109 | – | – | – |
| Equity share based payments | – | – | 46 | – | – | 46 | – | 46 |
| **31 January 2013** | **268** | **698** | **10,846** | **20,691** | **6,145** | **38,648** | **282** | **38,930** |

# Consolidated Statement of Financial Position

At 31 January 2013

Company Registration no. 4007169

| | Notes | 31 January 2013 Unaudited £'000 | 31 January 2012 Unaudited £'000 | 31 July 2012 Audited £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | | **4,170** | 4,336 | 4,253 |
| Property, plant and equipment | 7 | **69,289** | 69,261 | 69,470 |
| Property lease premiums | 8 | **3,462** | 2,971 | 3,180 |
| | | **76,921** | 76,568 | 76,903 |
| **Current assets** | | | | |
| Inventories | | **158** | 126 | 140 |
| Trade and other receivables | 9 | **2,194** | 1,788 | 1,855 |
| Cash and cash equivalents | | **3,536** | 3,163 | 3,961 |
| | | **5,888** | 5,077 | 5,956 |
| **Total assets** | | **82,809** | 81,645 | 82,859 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 10 | **(3,840)** | (3,978) | (4,084) |
| Current tax liabilities | | **–** | (73) | – |
| Borrowings | 12a | **(9)** | (39) | (22) |
| | | **(3,849)** | (4,090) | (4,106) |
| **Non-current liabilities** | | | | |
| Borrowings | 12a | **(29,259)** | (28,159) | (29,223) |
| Derivative financial instruments | 12b | **(302)** | – | (496) |
| Deferred tax | 13 | **(10,469)** | (10,759) | (10,073) |
| | | **(40,030)** | (38,918) | (39,792) |
| **Total liabilities** | | **(43,879)** | (43,008) | (43,898) |
| **Net assets** | | **38,930** | 38,637 | 38,961 |
| **Equity** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Called up share capital | 14 | **268** | 268 | 268 |
| Share premium | | **698** | 698 | 698 |
| Other reserves | | **10,846** | 12,237 | 11,651 |
| Retained earnings | | **6,145** | 4,969 | 5,545 |
| Revaluation reserve | | **20,691** | 20,201 | 20,527 |
| **Total equity attributable to owners of the parent** | | **38,648** | 38,373 | 38,689 |
| **Non-controlling interests** | | **282** | 264 | 272 |
| **Total equity** | | **38,930** | 38,637 | 38,961 |

Approved by the Board of Directors and authorised for issue on 19 April 2013 and signed on its behalf by:

**Andrew Jacobs**
Chief Executive Officer

**Ray Davies**
Finance Director

# Consolidated Statement of Cash Flows

**For the six months ended 31 January 2013**

| | Notes | Six months ended January 2013 Unaudited £'000 | Six months ended January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Cash generated from operations | 15a | **1,485** | 1,119 | 3,143 |
| **Net cash from operating activities** | | **1,485** | 1,119 | 3,143 |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment and property lease premiums | | **(404)** | (754) | (2,074) |
| Proceeds from disposal of property, plant and equipment | | **23** | 10 | 10 |
| Interest received | | **16** | 8 | 15 |
| **Net cash used in investing activities** | | **(365)** | (736) | (2,049) |
| **Financing activities** | | | | |
| Proceeds from new borrowings | | **–** | 28,527 | 29,681 |
| Repayment of borrowings | | **–** | (28,089) | (28,195) |
| Arrangement fees – refinancing of Group revolving credit facility | | **–** | (407) | (555) |
| Finance costs paid | | **(545)** | (362) | (926) |
| Equity dividends paid | | **(1,000)** | (667) | (917) |
| **Net cash used in financing activities** | | **(1,545)** | (999) | (912 |
| **Net (decrease)/increase in cash and cash equivalents in the period/year** | | **(425)** | (616) | 182 |
| **Cash and cash equivalents at beginning of the period/year** | | **3,961** | 3,779 | 3,779 |
| **Cash and cash equivalents at end of the period/year** | | **3,536** | 3,163 | 3,961 |

# Accounting Policies

## General Information

Lok'nStore plc is an AIM listed company incorporated and domiciled in England and Wales. The address of the registered office is One London Wall, London EC2Y 5AB, UK. Copies of the 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.com.

## Basis of preparation

The interim results for the six months ended 31 January 2013 have been prepared on the basis of the accounting policies expected to be used in the 2013 Lok'nStore Group plc Annual Report and Accounts and in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union ('EU') ('IFRS').

The same accounting policies, presentation and methods of computation are followed in these interim condensed set of financial statements as have been applied in the Group's latest annual audited financial statements.

The interim results, which were approved by the Directors on 20 April 2013, are unaudited. The interim results do not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006.

Comparative figures for the year ended 31 July 2012 have been extracted from the statutory accounts for the Group for that period, which carried an unqualified audit report, did not include a reference to any matters to which the Auditor drew attention by way of emphasis of matter, did not contain a statement under section 498(2) or (3) of the Companies Act 2006 and have been delivered to the Registrar of Companies.

## 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 £3.5 million (31.1.2012: £3.2 million), and undrawn committed bank facilities at 31 January 2013 of £10.3 million (31.1.2012: £11.5 million), and cash generated from operations in the period to 31 January 2013 of £1.5 million (31.1.2012: £1.1 million). The Group has a five year £40 million revolving credit facility with Lloyds TSB plc. The facility has been in place since 20 October 2011 and runs until 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The financial statements are therefore prepared on a going concern basis.

## EBITDA

Earnings before interest, tax, depreciation and amortisation ('EBITDA'), is defined as profits from operations before all depreciation and amortisation charges, losses or profits on disposal, share-based payments, significant non-recurring professional fees, finance income, finance costs and taxation.

## Store EBITDA

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

## Operating profit

Operating profit is defined as profit after all costs except significant non-recurring professional fees, finance income, finance costs and taxation.

## Critical accounting estimates and judgements

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

### a) Estimate of fair value of trading properties

The Group values its self-storage stores using a discounted cash flow methodology which is based on 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. The carrying value of freehold properties held at valuation at the reporting date was £56.1 million (31.1.2012: £55.7 million).

# Accounting Policies

continued

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

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

The carrying value of development property assets at the reporting date was £12.1 million (31.1.2012: £11.6 million) of which £3.5 million (31.1.2012: £3.0 million) relating to the long lease at Maidenhead is classified as a property lease premium and is shown separately in the statement of financial position.

### c) Estimate of fair value of intangible assets acquired in business combination

The relative size of the Group's intangible assets makes the judgements surrounding the estimated useful lives important to the Group's financial position and performance. At 31 January 2013, the carrying value of intangible assets, including goodwill, is £4.1 million (31.1.2012: £4.3 million).

The useful life used to amortise contractual customer relationship assets relates to the expected future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The estimated useful life of customer relationships of 20 years principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. Typically, the customer base for a serviced archive business is relatively inert. Corporate customers do not tend to switch service providers and indeed they incur box withdrawal charges should they do so. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

# Notes to the Interim Financial Statements

For the six months ended 31 January 2013

## 1 Revenue

Analysis of the Group's revenue is shown below:

| Stores trading | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2013 Unaudited £'000 | Year ended 31 July 2012 Audited £'000 |
|---|---|---|---|
| Self-storage revenue | 4,963 | 4,814 | 9,550 |
| Other storage related revenue | 572 | 553 | 1,116 |
| Management fees | 40 | 10 | 20 |
| Sub-total | 5,575 | 5,379 | 10,686 |
| **Stores under development** | | | |
| Non-storage income | 43 | 45 | 88 |
| Sub-total | 5,618 | 5,424 | 10,774 |
| **Serviced archive and records management revenue** | 932 | 983 | 1,991 |
| **Total revenue per statement of comprehensive income** | 6,550 | 6,407 | 12,765 |

## 2 Segmental information

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

The Group has two operating segments, being the provision of self-storage accommodation and related services and the provision of serviced archive and record management services.

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

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

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

# Notes to the Interim Financial Statements continued

For the six months ended 31 January 2013

## 2 Segmental information continued

The segment information for the period ended 31 January 2013 is as follows:

**2012/2013**

| | Self-storage Six months ended 31 January 2013 £'000 | Serviced archive & records management Six months ended 31 January 2013 £'000 | Total Six months ended 31 January 2013 £'000 | Self-storage Year ended 31 July 2012 £'000 | Serviced archive & records management Year ended 31 July 2012 £'000 | Total Year ended 31 July 2012 £'000 |
|---|---|---|---|---|---|---|
| **Revenue from external customers** | 5,618 | 932 | 6,550 | 10,774 | 1,991 | 12,765 |
| EBITDA | 1,935 | 168 | 2,103 | 3,500 | 474 | 3,974 |
| Management charges | 50 | (50) | - | 185 | (185) | – |
| Adjusted EBITDA | 1,985 | 118 | 2,103 | 3,685 | 289 | 3,974 |
| Depreciation | (568) | (51) | (619) | (1,498) | (79) | (1,577) |
| Amortisation of intangible assets | – | (83) | (83) | – | (165) | (165) |
| Loss on disposal – motor vehicles | (7) | (7) | (14) | (4) | – | (4) |
| Equity settled share based payments | (46) | – | (46) | (92) | – | (92) |
| **Segment profit/(loss)** | 1,364 | (23) | 1,341 | 2,091 | 45 | 2,136 |
| Central costs not allocated to segments: | | | | | | |
| Professional fees – management contract set-up | | | – | | | (196) |
| Finance income | | | 16 | | | 15 |
| Finance costs | | | (586) | | | (1,029) |
| **Profit before taxation** | | | 771 | | | 926 |
| Income tax expense | | | (270) | | | (155) |
| **Consolidated profit for the financial period/year** | | | 501 | | | 771 |

2011/2012

| | Self-storage Six months ended 31 January 2012 £'000 | Serviced archive & records management Six months ended 31 January 2012 £'000 | Total Six months ended 31 January 2012 £'000 | Self-storage Year ended 31 July 2011 £'000 | Serviced archive & records management Year ended 31 July 2011 £'000 | Total Year ended 31 July 2011 £'000 |
|---|---|---|---|---|---|---|
| **Revenue from external customers** | 5,424 | 983 | 6,407 | 10,702 | 144 | 10,846 |
| EBITDA | 1,721 | 206 | 1,927 | 3,325 | (44) | 3,281 |
| Depreciation | (741) | (68) | (809) | (1,609) | (7) | (1,616) |
| Amortisation | – | (83) | (83) | – | – | – |
| Loss on sale – motor vehicle | (3) | – | (3) | | | |
| Equity share based payments | (46) | – | (46) | (100) | – | (100) |
| Segment profit/(loss) | 931 | 55 | 986 | 1,616 | (51) | 1,565 |
| Central costs not allocated to segments: | | | | | | |
| Acquisition costs | | | – | | | (129) |
| Professional costs – bank loan refinancing | | | (149) | | | – |
| Finance income | | | 8 | | | 24 |
| Finance costs | | | (375) | | | (522) |
| Profit before taxation | | | 470 | | | 938 |
| Income tax expense | | | (175) | | | (52) |
| **Consolidated profit for the financial period/year** | | | 295 | | | 886 |

Corporate transactions and the treasury function are managed centrally and therefore are not allocated to segments. Sales between segments are carried out at arm's length.

## 2 Segmental information continued

**2012/2013**

| | Self-storage Six months ended 31 January 2013 £'000 | Serviced archive & records management Six months ended 31 January 2013 £'000 | Total Six months ended 31 January 2013 £'000 | Self-storage Year ended 31 July 2012 £'000 | Serviced archive & records management Year ended 31 July 2012 £'000 | Total Year ended 31 July 2012 £'000 |
|---|---|---|---|---|---|---|
| **Total assets** | **77,160** | **5,649** | **82,809** | 77,065 | 5,794 | 82,859 |
| **Segment liabilities** | **(13,339)** | **(970)** | **(14,309)** | (13,089) | (1,068) | (14,157) |
| Borrowings (not allocated to segment liabilities) | | | **(29,268)** | | | (29,245) |
| Derivative financial instruments (not allocated to segment liabilities) | | | **(302)** | | | (496) |
| **Total liabilities** | | | **(43,879)** | | | (43,898) |
| **Capital expenditure** | **91** | **30** | **121** | 1,465 | 374 | 1,839 |

2011/2012

| | Self-storage Six months ended 31 January 2012 £'000 | Serviced archive & records management Six months ended 31 January 2012 £'000 | Total Six months ended 31 January 2012 £'000 | Self-storage Year ended 31 July 2011 £'000 | Serviced archive & records management Year ended 31 July 2011 £'000 | Total Year ended 31 July 2011 £'000 |
|---|---|---|---|---|---|---|
| **Total assets** | 76,013 | 5,632 | 81,645 | 77,153 | 5,094 | 82,247 |
| **Segment liabilities** | (13,923) | (887) | (14,810) | (14,504) | (767) | (15,271) |
| Borrowings (not allocated to segment liabilities) | | | (28,198) | | | (28,150) |
| **Total liabilities** | | | (43,008) | | | (43,421) |
| **Capital expenditure** | 404 | 323 | 727 | 674 | 29 | 703 |

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

# Notes to the Interim Financial Statements continued

**For the six months ended 31 January 2013**

## 3 Finance cost

| | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Interest on bank borrowings | 496 | 367 | 814 |
| Non-utilisation fees and amortisation of bank loan arrangement fees | 86 | – | 201 |
| Finance leases and other interest | 4 | 8 | 14 |
| | 586 | 375 | 1,029 |

## 4 Taxation

| | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Current tax: | | | |
| UK corporation tax at 23% (2012: 25%) | – | 16 | – |
| Deferred tax: | | | |
| Origination and reversal of temporary differences | 268 | 147 | 376 |
| Impact of change in tax rate on closing balance | – | – | (351) |
| Adjustments in respect of prior periods | 2 | 12 | 130 |
| Total deferred tax | 270 | 159 | 155 |
| Income tax expense for the period/year | 270 | 175 | 155 |

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

| | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Profit before tax | 771 | 470 | 926 |
| Tax on ordinary activities at the standard rate of corporation tax in the UK of 23% (2012: 25%) | 177 | 122 | 232 |
| Expenses not deductible for tax purposes | 3 | 3 | 18 |
| Depreciation of non-qualifying assets | 66 | 36 | 103 |
| Share based payment charges in excess of corresponding tax deduction | 11 | 12 | 22 |
| Impact of change in tax rate | – | (10) | (351) |
| Amounts not recognised in deferred tax | 11 | – | – |
| Utilisation of loss against pre-acquisition profits | – | – | – |
| Adjustments in respect of prior periods – deferred tax | 2 | 12 | 130 |
| Other | – | – | 1 |
| Income tax expense for the period/year | 270 | 175 | 155 |
| Effective tax rate | 35% | 37% | 17% |

## 5 Dividends

| | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | | |
| Final dividend for the year ended 31 July 2011 (2.67 pence per share) | – | 667 | 667 |
| Interim dividend for the six months to 31 January 2012 (1.00 pence per share) | – | – | 249 |
| Final dividend for the year ended 31 July 2012 (4.0 pence per share) | 1,000 | – | – |
| | 1,000 | 667 | 917 |

In respect of the current year the Directors propose that a dividend of 1.67 pence per share will be paid to the shareholders. The total estimated dividend to be paid is £417,394 based on the number of shares currently in issue as adjusted for shares held in the Employee Benefits Trust and for shares held on treasury. This interim dividend is an on-account payment of a final annual dividend and is ultimately subject to approval by shareholders at the 2013 Annual General Meeting and has not been included as a liability in these financial statements. The ex-dividend date will be 1 May 2013; the record date 3 May 2013; with an intended payment date of 10 June 2013.

## 6 Earnings Per Share

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

| | Six months ended 31 January 2013 Unaudited £'000 | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Profit for the financial period attributable to owners of the parent | 491 | 285 | 753 |

| | No. of shares | No. of shares | No. of shares |
|---|---|---|---|
| Weighted average number of shares | | | |
| For basic earnings per share | 24,993,653 | 24,993,653 | 24,993,653 |
| Dilutive effect of share options* | 231,735 | 137,375 | 186,893 |
| For diluted earnings per share | 25,225,388 | 25,131,028 | 25,180,546 |

623,212 (31.1.2012: 623,212) shares held in the Employee Benefit Trust and 1,142,000 (31.1.2012: 1,142,000) treasury shares are excluded from the above.

*Further options that could potentially dilute EPS in the future are excluded from the above because they are not dilutive in the period presented.

| | Six months ended 31 January 2013 Unaudited | Six months ended 31 January 2012 Unaudited | Year ended 31 July 2012 Audited |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic | 1.96p | 1.14p | 3.01p |
| Diluted | 1.95p | 1.13p | 2.99p |

# Notes to the Interim Financial Statements continued

For the six months ended 31 January 2013

## 7 Property, Plant and Equipment

| Group | Development property assets at cost £'000 | 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 |
|---|---|---|---|---|---|---|
| Net book value at 31 July 2011 | 8,587 | 51,030 | 1,130 | 8,271 | 156 | 69,174 |
| Net book value at 31 Jan 2012 | 8,634 | 51,267 | 1,095 | 8,132 | 133 | 69,261 |
| Net book value at 31 July 2012 | 8,671 | 51,868 | 1,094 | 7,719 | 118 | 69,470 |
| **Cost or valuation** | | | | | | |
| **1 August 2012** | 8,671 | 51,868 | 2,514 | 16,379 | 217 | 79,649 |
| Additions | – | 4 | 30 | 87 | – | 121 |
| Reclassification | – | – | – | – | – | – |
| Disposals | – | – | – | – | (70) | (70) |
| Revaluations | – | 92 | – | – | – | 92 |
| **31 January 2013** | **8,671** | **51,964** | **2,544** | **16,466** | **147** | **79,792** |
| **Depreciation** | | | | | | |
| **1 August 2012** | – | – | 1,420 | 8,659 | 100 | 10,179 |
| Charge for the period | – | 262 | 44 | 304 | 9 | 619 |
| Disposals | – | – | – | – | (33) | (33) |
| Revaluations | | (262) | – | – | – | (262) |
| **31 January 2013** | **–** | **–** | **1,464** | **8,963** | **76** | **10,503** |
| **Net book value at 31 January 2013** | **8,671** | **51,964** | **1,080** | **7,503** | **71** | **69,289** |

If all property, plant and equipment were stated at historic cost the carrying value would be £45.2 million (31.1.2012: £45.3 million).

Property, plant and equipment (non-current assets) with a carrying value of £69.3 million (31.1.2012: £69.5 million) are pledged as security for bank loans. The Maidenhead property (see note 8) is also pledged as security for the bank loans.

### Market Valuation of Freehold and Operating Leasehold Land and Buildings

Following the comprehensive external valuation at 31 July 2012 by Cushman and Wakefield (C&W), the freehold and leasehold properties have not been externally valued at 31 January 2013, although in accordance with the Group's established policy it is the intention to do so at the next year end at 31 July 2013. Although the Board did not commission an external valuation at this interim it is mindful of the need to accord with the measurement principles of International Financial Reporting Standards as adopted by the European Union. Accordingly after consultation with our external valuers, the Directors considered that there had not been a material movement in market yields and therefore no market yield shift assumption has been applied at 31 January 2013 to our properties externally valued at 31 July 2012.

## 8 Property lease premiums

£3.5 million of costs relating to the long lease at Maidenhead is classified as a non-current asset in the statement of financial position (31.1.2012: £3.2 million). This represents a lease premium paid on entering the lease and other related costs. The lease runs until 31 March 2076. A peppercorn rent is payable until 2027 and a market ground rent thereafter.

| Group | **Six months ended 31 January 2013 Unaudited £'000** | Six months ended 31 January 2012 Unaudited £'000 | Year ended 31 July 2012 Audited £ '000 |
|---|---|---|---|
| Balance at start of the period/year | **3,180** | 2,944 | 2,944 |
| Additions during the period/year | **282** | 27 | 236 |
| Balance at end of the period/year | **3,462** | 2,971 | 3,180 |

## 9 Trade and other receivables

| | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2012 £ '000 |
|---|---|---|---|
| Trade receivables | 1,212 | 1,130 | 1,225 |
| Other receivables | 484 | 166 | 163 |
| Prepayments and accrued income | 498 | 492 | 467 |
| | 2,194 | 1,788 | 1,855 |

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

## 10 Trade and other payables

| | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2012 £ '000 |
|---|---|---|---|
| Trade payables | 413 | 483 | 767 |
| Taxation and social security costs | 502 | 511 | 294 |
| Other payables | 921 | 888 | 911 |
| Accruals and deferred income | 2,004 | 2,096 | 2,112 |
| | 3,840 | 3,978 | 4,084 |

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

## 11 Capital management and gearing

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 15a, 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 period.

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

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

| | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2012 £ '000 |
|---|---|---|---|
| Debt | (29,691) | (28,576) | (29,708) |
| Cash and cash equivalents | 3,536 | 3,163 | 3,961 |
| Net debt | (26,155) | (25,413) | (25,747) |
| Statement of financial position equity | 38,930 | 38,637 | 38,961 |
| Net debt to equity ratio | 67.2% | 65.8% | 66.1% |

The modest increase in the Group's gearing ratio compared to 31 January 2012, arises through the combined effect of an increase in net debt arising from the purchase of the Swindon East property, and the requirement to provide for the liability arising on the fair value of the two interest rate swaps executed during May 2012. Cash generated from operations partially offset the effect.

# Notes to the Interim Financial Statements continued

For the six months ended 31 January 2013

## 12a Borrowings

| | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2012 £ '000 |
|---|---|---|---|
| **Non-current** | | | |
| Bank loans repayable in more than two years but not more than five years | | | |
| Gross | 29,682 | 28,527 | 29,682 |
| Deferred financing costs | (423) | (378) | (463) |
| Net bank borrowings | 29,259 | 28,149 | 29,219 |
| Finance lease liabilities | – | 10 | 4 |
| Non-current borrowings | 29,259 | 28,159 | 29,223 |
| **Current** | | | |
| Bank loans repayable in less than one year | – | – | – |
| Finance lease liabilities | 9 | 39 | 22 |
| Current borrowings | 9 | 39 | 22 |
| **Total borrowings** | 29,268 | 28,198 | 29,245 |

The £40 million revolving credit facility with Lloyds TSB plc is secured by legal charges and debentures over the freehold and leasehold properties and other assets of the business with a net book value of £82.8 million (31.1.2012: £81.6 million) together with cross-company guarantees from Group companies. The revolving credit facility is for a five-year term and expires on 19 October 2016. The Group is not obliged to make any repayments prior to expiration. The loans bear interest at the London Inter-Bank Offer Rate (LIBOR) plus 2.35%–2.65% Lloyds TSB plc margin based on a loan to value covenant test while the interest cover and loan to value covenants are broadly in line with the previous facility.

## 12b Derivative financial instruments

The Group entered into a £10 million interest rate swap as a cash flow hedge with Lloyds TSB Bank plc effective from 31 May 2012 at a fixed one month sterling LIBOR rate of 1.2%. The Group entered into a second £10 million interest rate swap with Lloyds TSB Bank plc also effective from 31 May 2012 at a fixed one month sterling LIBOR rate of 1.15%. Both swaps run up to the expiration of the current banking facility in October 2016. The balance of the drawn facility of £9.7 million remains at a floating rate.

| Group | Currency | Principal £'000 | Maturity date | 31 Jan 2013 £'000 | 31 Jan 2012 £'000 | 31 July 2012 £'000 |
|---|---|---|---|---|---|---|
| 3032816LS Interest rate swap | GBP | 10,000 | 20/10/2016 | (160) | – | (258) |
| 3047549LS Interest rate swap | GBP | 10,000 | 20/10/2016 | (142) | – | (238) |
| | | 20,000 | | (302) | – | (496) |

The movement in fair value of the interest rate swaps of £193,916 has been recognised in other comprehensive income in the period.

## 13 Deferred Tax

| Deferred tax liability | 31 January 2013 £'000 | 31 January 2012 £'000 | 31 July 2012 £'000 |
|---|---|---|---|
| Liability at start of period/year | 10,073 | 10,555 | 10,555 |
| Charge to income for the year | 270 | 158 | 154 |
| Tax credited directly to other comprehensive income | 126 | 46 | (636) |
| Liability at end of year | 10,469 | 10,759 | 10,073 |

## 13 Deferred Tax continued

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

| | Accelerated capital allowances £'000 | Tax losses £'000 | Intangible assets £'000 | Other temporary differences £'000 | Revaluation of properties £'000 | Rolled over gain on disposal £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **At 1 August 2011** | **1,307** | **(599)** | **827** | **24** | **6,721** | **2,275** | **10,555** |
| Charge/ (credit) to income for the period | 14 | 198 | (21) | – | (33) | – | 158 |
| Charge /(credit) to other comprehensive income | – | – | – | – | 46 | – | 46 |
| **At 31 January 2012** | **1,321** | **(401)** | **806** | **24** | **6,734** | **2,275** | **10,759** |
| Charge/ (credit) to income for the period | 113 | 169 | (83) | (2) | (19) | (182) | (4) |
| Charge/(credit) to other comprehensive income | – | – | – | (114) | (568) | – | (682) |
| **At 31 July 2012** | **1,434** | **(232)** | **723** | **(92)** | **6,147** | **2,093** | **10,073** |
| Charge/(credit) to income for the period | 167 | 97 | (19) | – | 25 | – | 270 |
| Charge/(credit) to other comprehensive income | – | – | – | 45 | 81 | – | 126 |
| **At 31 January 2013** | **1,601** | **(135)** | **704** | **(47)** | **6,253** | **2,093** | **10,469** |

At the reporting date, the Group has unused revenue tax losses of approximately £0.9 million (31.1.2012: £1.8 million) available to carry forward against future profits of the same trade. A deferred tax asset of £0.1 million (31.1.2012: £0.4 million) has been recognised in respect of such losses. This asset offsets against the deferred tax liability position in respect of accelerated capital allowances and other temporary differences. The losses can be carried forward indefinitely.

A potential deferred tax asset of £58,792 (31.1.2012: £39,195) arises in respect of the share options in existence at 31 January 2013 but has not been recognised in the accounts. No deferred tax asset arises in relation to the remainder of the share options as at 31 January 2013 as the share price at the year-end is below the exercise price of the options.

The UK's main rate of corporation tax is expected to reduce to 23% from 1 April 2013 with a further reduction to 21% from 1 April 2014. Due to the difficulty of predicting the amount of capital expenditure over this period, it is not possible to accurately quantify the effect of the rate change on the deferred tax position over this period.

## 14 Share Capital

| | Number | Called up, allotted and fully paid £ |
|---|---|---|
| Ordinary shares of 1p each at 31 January 2012, 31 July 2012 and 31 January 2013 | **26,758,865** | **268** |

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

# Notes to the Interim Financial Statements continued

For the six months ended 31 January 2013

## 15 Cash Flows

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

| | Unaudited Six months ended 31 January 2013 £'000 | Unaudited Six months ended 31 January 2012 £'000 | Audited Year ended 31 July 2012 £'000 |
|---|---|---|---|
| Profit before tax | **771** | 470 | 926 |
| Depreciation | **619** | 809 | 1,577 |
| Amortisation of intangible assets | **83** | 83 | 165 |
| Professional costs - refinancing of bank loan facility | **–** | 149 | – |
| Equity settled share based payments | **46** | 46 | 92 |
| Loss on sale of motor vehicles | **14** | 3 | 4 |
| Interest receivable | **(16)** | (8) | (15) |
| Interest payable | **586** | 375 | 1,029 |
| Increase in inventories | **(18)** | (16) | (30) |
| Increase/(decrease) in receivables | **(339)** | 33 | (34) |
| Decrease in payables | **(261)** | (825) | (571) |
| Cash generated from operations | **1,485** | 1,119 | 3,143 |

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

Net debt is defined as non-current and current borrowings less cash and cash equivalents.

| | Unaudited Six months ended 31 January 2013 £'000 | Unaudited Six months ended 31 January 2012 £'000 | Audited Year ended 31 July 2012 £'000 |
|---|---|---|---|
| (Decrease)/increase in cash in the period/year | **(425)** | (615) | 182 |
| Change in net debt resulting from cash flows | **17** | (409) | (1,540) |
| Movement in net debt in period | **(408)** | (1,024) | (1,358) |
| Net debt brought forward | **(25,747)** | (24,389) | (24,389) |
| Net debt carried forward | **(26,155)** | (25,413) | (25,747) |

## 16 Commitments under operating leases

At 31 January 2013 the total future minimum lease payments under non-cancellable operating leases were as follows:

### The Group as a lessee:

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

| | Unaudited Six months ended 31 January 2013 £'000 | Unaudited Six months ended 31 January 2012 £'000 | Audited Year ended 31 July 2012 £'000 |
|---|---|---|---|
| Land and buildings | | | |
| Amounts due: | | | |
| Within one year | **1,544** | 1,590 | 1,618 |
| Between two and five years | **5,735** | 5,920 | 6,090 |
| After five years | **10,266** | 7,642 | 6,087 |
| | **17,545** | 15,152 | 13,795 |

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

## 17 Events after the reporting date

### Sale and manage-back of Ashford store

On 28 March 2013, the Group completed the sale of its store in Ashford, Kent, to a fund run by Alpha Real Capital for £2.9 million in cash. The store was independently valued at £2.92 million at 31 July 2012 and made an EBITDA contribution of £221,724 in the last financial year.

Lok'nStore will continue to manage the store as a branded Lok'nStore operation on behalf of the investor, and will receive a monthly management fee, as well as an additional fee should the store outperform its targets or if the store is ultimately sold.

The proceeds of the sale will initially be used to reduce the Group's net debt but will be redrawn in due course as the capital is recycled into earnings enhancing projects, such as the new store in Aldershot due to open in Spring 2014.

## 18 Contingent Liability – Value added tax

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

### Current Dealings with HMRC

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

### Position at Period End

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

HMRC will be allowed leave to appeal to the Upper Tribunal in respect of the First Tier Tribunal Judgement (FTT). It is appropriate, as in previous years, to update on the range of outcomes, on a worst case scenario, the overall liability in relation to input tax claimed up to the end of January 2013 which may become repayable to HMRC totals £435,749 (31.1.2012: £397,758) based on the standard method restriction. Of this £225,893 (31.1.2012: £208,579) relates to capital expenditure inputs and £209,856 (31.1.2012: £189,179) relates to income statement items. Interest would be added to both totals. Alternatively, if our floor-based special method is unchallenged by HMRC, this will give a restriction of less that 0.1%, in which case the total amount of VAT (plus interest) to be assessed by HMRC would on the figures above give a de minimus result.

It remains the Group's position to continue to report the position as a contingent liability until such time as HMRC's appeal is determined. However, while that outcome at present remains uncertain it is not considered that any material provision is necessary.

# Our Stores and Locations

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## Development locations

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**North Harbour, Port Solent, Hampshire**
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**Maidenhead, Berkshire**
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Berkshire
SL6 1AY

**Reading, Berkshire**
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## Managed stores

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