MUCKLOW

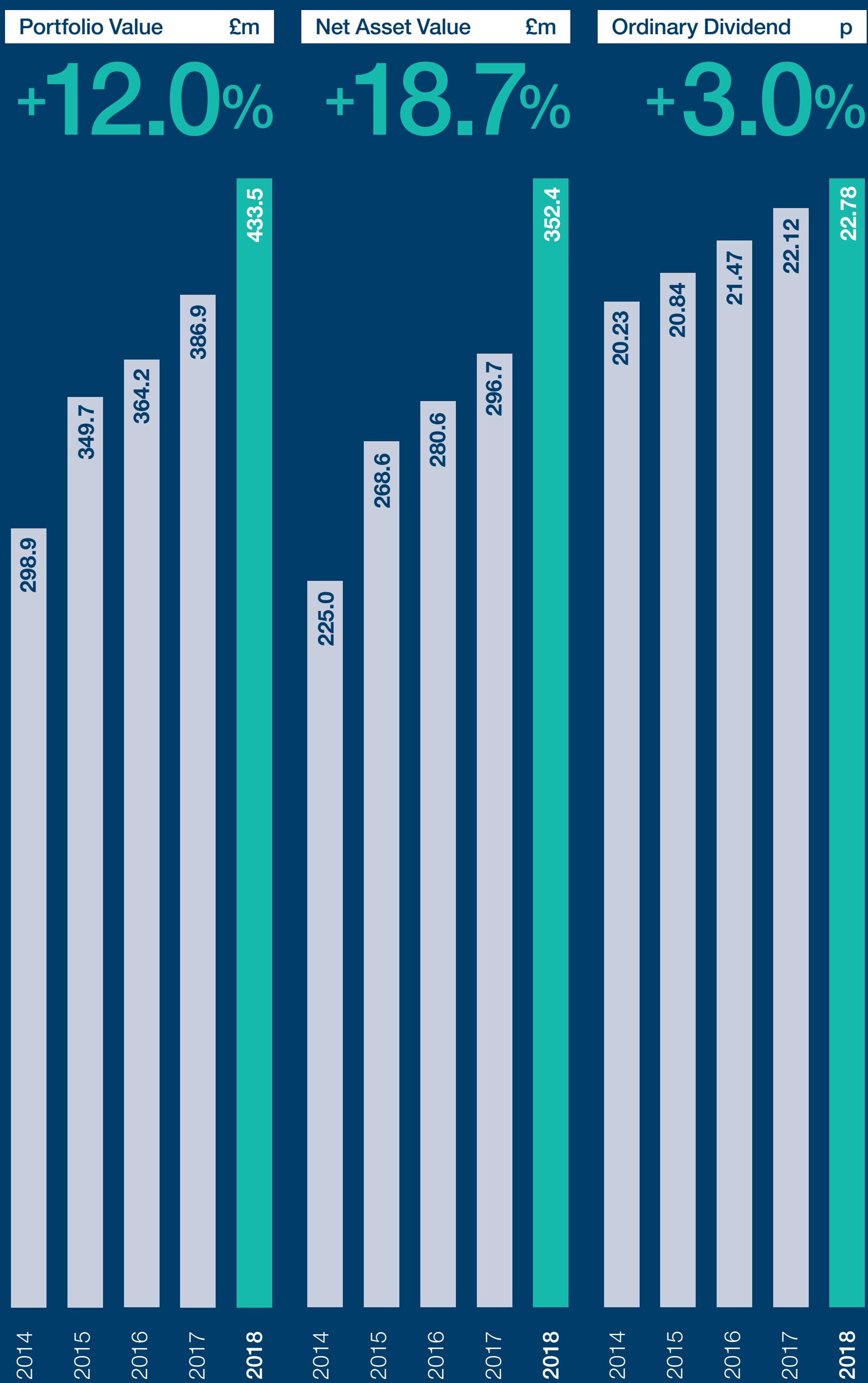
A & J Mucklow Group plc

Annual Report and Financial Statements
for the year ended 30 June 2018

Stock Code: MKLW

A & J Mucklow Group was founded in the West Midlands in 1933 and listed on the London Stock Exchange in 1962. Its principal activity is selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation.



Financial Summary

for the year ended 30 June 2018

Statement of comprehensive income

	Year ended 30 June 2018	Year ended 30 June 2017
Statutory pre-tax profit	**£69.5m**	£29.6m
Underlying pre-tax profit[1]	**£15.7m**	£15.9m
EPRA EPS[1]	**25.06p**	25.05p
Basic EPS	**109.74p**	46.63p
Ordinary dividend per share	**22.78p**	22.12p

Balance sheet

	30 June 2018	30 June 2017
Net asset value	**£352.4m**	£296.7m
EPRA NAV per share[1]	**559p**	471p
Basic NAV per share	**557p**	469p
Net debt	**£71.0m**	£78.5m
Net debt to equity gearing	**20%**	26%

Property portfolio

	30 June 2018	30 June 2017
Vacancy rate	**2.8%**	4.2%
Portfolio value[2]	**£433.5m**	£386.9m
Valuation gain	**£49.7m**	£13.0m
Initial yield on investment properties	**5.6%**	6.2%
Equivalent yield	**6.4%**	7.0%

The ordinary dividend of 22.78p per share (2017: 22.12p) consists of the first and second quarterly dividends totalling 10.18p, a third quarterly dividend of 5.30p and a final dividend of 7.30p.

1 An alternative performance measure. The Group uses a number of financial measures to assess and explain its performance, some of which are considered to be alternative performance measures as they are not defined under IFRS. The directors consider that this further analysis of our performance gives shareholders a useful comparison of the underlying performance for the periods shown, consistent with other companies in the sector. For further details, see the table in the Finance Review on pages 11 to 14 and note 10.

2 See note 11.

Strategic Report

Governance Report

Financial Statements

Shareholder Information

See more information online at:
www.mucklow.com

MUCKLOW

Chairman's Statement

Rupert Mucklow, Chairman

"I am pleased to report another strong performance by the Group for the year ended 30 June 2018."

I am pleased to report another strong performance by the Group for the year ended 30 June 2018.

Letting activity and occupancy rates have been maintained at very high levels during the 12 months, enabling rental and property values to continue to grow, which has resulted in substantial increases in our pre-tax profit and net asset value per share.

Results

Statutory pre-tax profit for the year was £69.5m, which included a revaluation gain of £49.7m (2017: £29.6m – revaluation gain of £13.0m).

The underlying pre-tax profit, which excludes revaluation movements, profit on sale of investment and trading properties and early debt repayment costs, was £15.7m (2017: £15.9m). The slight reduction in underlying pre-tax profit was due to a £0.6m increase in property outgoings during the year, following the refurbishment of some vacant properties. EPRA earnings per ordinary share was 25.06p (2017: 25.05p).

EPRA net asset value per ordinary share increased by 18.7% during the year from 471p to 559p. Basic net asset value per share increased by 88p to 557p.

Shareholders' funds rose by £55.7m to £352.4m (2017: £296.7m), while total net borrowings reduced to £71.0m (2017: £78.5m). Net debt to equity gearing had fallen to 20% (2017: 26%) and loan to value was 16% (2017: 20%).

Dividend

The Board is recommending the payment of dividends amounting to 12.60p per ordinary share, an increase of 3% over last year (2017: 12.24p), making a total for the year of 22.78p (2017: 22.12p), up 3%.

A quarterly dividend of 5.30p per ordinary share is to be paid on 15 October 2018 to Shareholders on the register at the close of business on 14 September 2018 and a final dividend of 7.30p per ordinary share, if approved by Shareholders at the AGM, will be paid on 15 January 2019 to Shareholders on the register at the close of business on 14 December 2018.

Both dividends will be paid as Property Income Distributions (PIDs).

Property Review

Our occupancy rate at 30 June 2018 was at a record high of 97.2% (30 June 2017: 95.8%). The occupier market remained strong throughout the year and we continued to benefit from steady rental growth averaging around 12.8% on lease renewals and 12.2% from rent reviews, on approximately 15% of the property portfolio by area.

We completed the refurbishment of our 25,200 sq ft office building at Trinity Central, next to Birmingham International Railway station, in the second half year at a cost of around £3.0m. The building is now let to a single occupier at a rent of £0.57m pa (previous rent £0.45m pa). We also successfully re-let the 110,000 sq ft warehouse at Shire Business Park, Worcester, in March 2018, at a rent of £0.59m pa (previous rent £0.55m pa).

The property only became vacant in December 2017.

A number of other asset management initiatives were carried out during the year, enhancing rental and capital values, including a substantial refit of a 29,963 sq ft retail warehouse at Birchley Island, Oldbury, at a cost of £1.7m, where we agreed a new 15 year lease with the tenant at a rent of £0.42m pa (previous rent £0.28m pa). We also agreed to extend the lease on a 41,534 sq ft industrial unit at Birchley Island for a further 19 years, expiring in 2042.

We were unable to buy any industrial investments during the year. There were limited opportunities available in the Midlands and prices achieved were considerably higher than we could justify paying. We have continued to focus on creating our own investment properties through development.

Our 44,250 sq ft pre-let industrial development at Mucklow Park i54, Wolverhampton, was completed in the second half year and is now leased at £0.28m pa. We have recently agreed terms on a 58,000 sq ft pre-let industrial unit at Mucklow Park, Tyseley, Birmingham. We hope to obtain detailed planning consent for the 58,000 sq ft unit and for a speculative scheme of 7 industrial units totalling 77,000 sq ft next month and start both developments later this year.

We sold two industrial properties in Birmingham during the year for £20.0m (Bull Ring Trading Estate for £13.0m and Camp Hill for £7.0m), with a combined rental income of £0.8m pa. The two properties were sold significantly above their previous valuation at 30 June 2017 of £10.7m. The main tenants of both properties are intending to vacate within 18 months, offering investors some potential for future redevelopment.

We also exchanged contracts to sell another small industrial property in Birmingham for £5.0m. The property comprises an 11,650 sq ft industrial unit on a site area of 0.6 acres and currently generates a rental of £0.06m pa. The value of this investment property 12 months ago was £1.2m.

Property Valuation

Cushman & Wakefield revalued our property portfolio at 30 June 2018. The investment properties and development land were valued at £433.5m, recognising a revaluation gain of £49.7m (12.9%).

The initial yield on the investment properties was 5.6% (30 June 2017: 6.2%). The equivalent yield was 6.4% (30 June 2017: 7.0%).

The largest single valuation gain was £8.0m at Forward Park, Birmingham, where we own a 55,000 sq ft industrial estate on 2.7 acres of land, close to our industrial unit currently under offer for £5.0m. Most of the valuation gain came from our industrial investment properties, which are continuing to show steady rental growth and yield compression.

Cushman & Wakefield also revalued our trading properties at 30 June 2018. The total value was £2.0m, which showed an unrecognised surplus of £1.5m against book cost.

Finance

Net borrowings at 30 June 2018 were £71.0m (30 June 2017: £78.5m), whilst un-utilised banking facilities were £45.0m (30 June 2017: £40.5m). Net debt to equity gearing and LTV at 30 June 2018 was 20% and 16% respectively (30 June 2017: 26% and 20%).

We repaid a £20m, 5.59% fixed rate loan we had with Lloyds Bank in the second half of the year, which was due to expire in 2023, incurring an early debt repayment cost of £3.6m, and took out a new £20m term loan facility with Scottish Widows at a fixed rate of 3.4%, expiring in 2031, co-terminus with the £40m facility taken out with Scottish Widows last year.

As such, our weighted average cost of debt has reduced to 3.0% (30 June 2017: 3.1%) or 3.3% on drawn amounts (2017: 3.6%) and our weighted average term remaining on debt is 8.2 years (30 June 2017: 7.7 years).

Non-Executive Director changes

We were delighted to welcome James Retallack to the Board as a Non-Executive Director in June 2018. James is a Lawyer by profession, having previously been Senior Partner at Edge & Ellison in Birmingham and a Director of Aggregate Industries plc. I am sure James will fit in well at Mucklow and maintain the very high standards and level of contribution that we have become accustomed to.

Stephen Gilmore, having completed 9 years service at Mucklow as a Non-Executive Director, the last 6 years as Chairman of the Remuneration Committee, will be stepping down from the Board in June 2019. James Retallack will then become Chairman of the Remuneration Committee. I would like to thank Stephen in advance for his dedication, contribution and sound advice at Board meetings over the years and wish him well continuing to grow his successful legal practice.

Outlook

It is difficult to predict what might happen over the next 12 months in the industrial occupier and investment markets, particularly with Brexit looming. Usually, at this late stage in the property cycle, with occupancy levels at record highs and industrial property yields at all time lows, we would be anticipating a correction in property values and be preparing ourselves to start acquiring attractively priced investment properties again. However, there are currently no signs of the industrial property market weakening, so we intend to continue to focus our activities towards development for the time being, to include a controlled speculative development programme and should circumstances change, we remain well positioned to capitalise on a weaker investment market.

Rupert Mucklow
Chairman
3 September 2018

Strategy and Business Model

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation, by investing, developing and actively managing industrial and commercial property, whilst adopting a conservative financial structure.

Our long-term objective remains focused on accumulating a diversified portfolio of high quality, well-located, modern, income-producing properties, with potential for long-term rental and capital growth which are attractive to both occupiers and investors.

Income focus

As a Real Estate Investment Trust, we are committed to distributing 90% of the profits of our tax exempt business. We therefore expect dividends to be an important part of the total shareholder return.

Sector focus

The Group's primary sector focus is industrial. We believe that by investing mainly in industrial property, which tends to offer a higher level of income return than offices and retail, at an attractive margin to our cost of debt, we are able to provide shareholders with a higher level of dividend yield and the prospect of long-term dividend growth. Our selective office and retail properties also offer attractive income returns and capital growth prospects, as well as diversifying our income stream and tenant base.

Geographic focus

We continue to primarily invest and develop in the Midlands region, an area we consider to offer attractive long-term rental and capital growth potential, and where we have over 75 years' experience. The geographic concentration of our portfolio, and range of unit sizes and lease expiries, means that we can work closely with our existing customers to satisfy their space requirements as their businesses expand, or their requirements contract, within our existing portfolio.

Strategy

The three areas of our strategy are:

- Selectively acquiring and disposing of investment properties;
- Developing new properties for long-term investment; and
- Actively managing our assets to enhance value.

Investment

The core of our business is the investment property portfolio, which represents 98% of the value of the investment and development properties held. The investment portfolio consists of 62 properties/estates, with 342 units, totalling 3.8m sq ft.

We continue to be a counter-cyclical investor in modern, well located, quality investment properties, where we expect to achieve attractive returns. Given the long-term and cyclical nature of the property market, we believe that the precise timing of acquisitions and disposals is crucial in boosting returns from our existing property portfolio.

Development

We are also a selective developer of well located, high quality property, developing properties when the occupier market is strong.

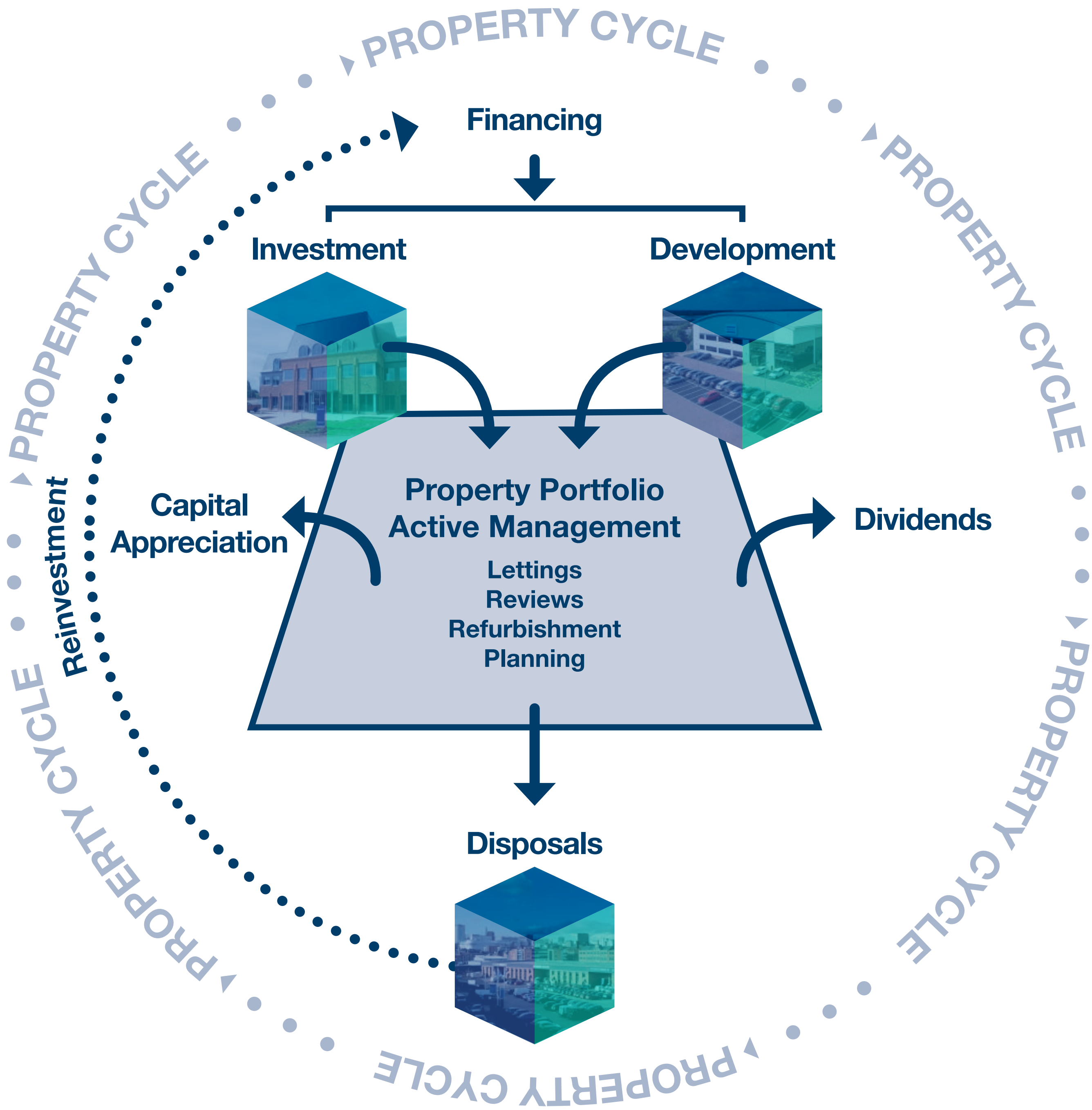
Asset management

In addition, our proactive approach to the management of our assets allows us additional opportunity to enhance overall value.

Financial strength

Our low cost base, comprising only 11 employees, as well as 4 non-executive directors, enables us to pay a high proportion of our profits as dividends. In addition, the small size of the team enables us to react quickly to changing market conditions, and the liquidity of our financing provides us with the ability to transact quickly.

A conservative financial structure leads to a lower cost base, in terms of interest payable, and reduces the Group's exposure to volatility in interest rates and property valuations.


PROPERTY CYCLE
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Financing
Investment
Development
Property Portfolio
Active Management
Lettings
Reviews
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Planning
Capital
Appreciation
Dividends
Reinvestment
Disposals

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Mucklow Park i54
Wolverhampton

Industrial building	Rent	Let
44,250 sq ft	£0.28 m	April 2018

Shire Business Park
Worcester

Industrial building	Rent	Let
110,345 sq ft	**£0.59 m**	**March 2018**

Property Review

Justin Parker, Managing Director

Overview

The Group has benefited from strong occupational and investment markets for industrial property, with a portfolio revaluation increase of £49.7m to £433.5m, reduction in vacancy rate to 2.8% (2017: 4.2%), rental growth on lettings and reviews and asset sales at a significant premium over their 30 June 2017 valuations.

Underlying profit has decreased slightly, from £15.9m to £15.7m, mainly reflecting the refurbishment of our vacant properties to achieve higher rents and reduced voids.

Key performance indicators

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation, whilst adopting a conservative financial structure. As a result, the key performance indicators we use to reflect the achievement of that objective on an annual basis are: underlying pre-tax profit; vacant space; dividend growth; and net debt to equity gearing.

	2018	2017
Underlying pre-tax profit* (£m)	**15.7**	15.9
Vacant space (%)	**2.8**	4.2
Dividend growth (%)	**3.0**	3.0
Net debt to equity gearing (%)	**20**	26

* See the table on page 12 for the calculations.

Acquisition and disposal of investment properties

The industrial investment market continued to be very competitive during our financial year, with low yields being paid for quality industrial properties.

We have taken advantage of the strength of the investment market and disposed of £20.0m of investment properties, which were valued at £10.7m at 30 June 2017, and exchanged contracts to sell a further property for £5.0m.

Bull Ring Trading Estate, Birmingham, was sold in October 2017 for £13.0m, well ahead of the £5.4m valuation as at 30 June 2017. The industrial estate of 63,828 sq ft occupied 3.4 acres of land and provided an annual income of £0.4m.

Camp Hill, Birmingham, (3.8 acres) was sold in April 2018 for £7.0m. The 124,270 sq ft industrial property was valued at £5.3m as at 30 June 2017. The passing rent was £0.4m.

The main tenants of both of the above-named properties were due to vacate within 18 months.

Contracts have been exchanged for the sale of Lancaster Gate, Birmingham, for £5.0m, with completion due to take place before 31 December 2018. The rent on the property is currently £0.06m pa and it was valued at £1.2m as at 30 June 2017.

We continue to look for attractively priced investment properties, focusing on the Midlands industrial property market, but have not acquired any properties in the year.

Developing new properties for long-term investment

Mucklow Park i54, Wolverhampton

We entered into an option agreement for a prime 15 acre industrial site with Wolverhampton City Council and Staffordshire County Council in November 2015. The site is adjacent to the new Jaguar Land Rover engine manufacturing facility at i54 in Wolverhampton. The land can accommodate up to 275,000 sq ft of advanced manufacturing space.

A pre-let of a 44,250 sq ft industrial unit for Tentec Limited, a subsidiary of Atlas Copco, was agreed in the prior year. We exercised our option to acquire 6.4 acres of the 15 acre site, including the 3 acres the Tentec unit has been developed on, in the year. The unit completed in April 2018 and now produces an annual rent of £0.28m.

We are marketing the remainder of the site for pre-lets.

Mucklow Park, Tyseley

We have agreed terms for a 58,000 sq ft pre-let industrial unit at our 20 acre site in Tyseley, Birmingham. A planning application has been submitted and we are aiming to start on site later this year.

Given the strength of the occupational market for smaller industrial properties and the lack of supply, we subsequently submitted a planning application for a speculative 77,000 sq ft multi-let industrial scheme of 7 units on the land adjacent to the site of the proposed pre-let unit at Tyseley, which we hope to develop out at the same time.

If the occupational market for industrial property continues to be supportive, our 23 acres of remaining development land at i54, Wolverhampton and Tyseley, Birmingham, provides the potential for up to 440,000 sq ft of industrial/warehouse space.

Actively managing our assets to enhance value

The positive trends in the occupational market have continued in the year and our vacancy rate reduced to 2.8% at our year end (2017: 4.2%).

Rent reviews completed in the year, on properties with a previous annual rent totalling £2.6m, were agreed at an average uplift of 12.2%.

Lease renewals have been agreed over 136,386 sq ft of space at a new rent of £0.9m, an increase of 12.8%.

New leases were agreed in the year totalling 278,571 sq ft, producing an annual rent of £2.0m, an increase of 3.0% over our ERV.

The two most significant lettings in the year were the Trinity Central office (25,200 sq ft, close to Birmingham International Railway Station) and the 110,000 sq ft warehouse in Worcester.

The Trinity Central office was returned to us in July 2016. We completed a substantial refurbishment of the building in March 2018 at a cost of around £3.0m and let it on completion at a rent of £0.57m pa, 28% higher than it was previously let at, on a 10 year lease.

Shire Business Park (Worcester) was returned to us on lease end in December 2017. Refurbishment works costing £0.3m were carried out and the unit was re-let in March 2018 at £0.59m pa on a 10 year lease with a mid-point break.

Lease regearings were carried out over 120,852 sq ft, with a revised annual rental of £1.1m, including the two properties at Birchley referred to in the Chairman's Statement. We also moved the break out by 7 years, to 2026, on a 23,154 sq ft office building, with no incentive being granted to the tenant.

Occupancy

Our year-end vacancy rate was 2.8% (106,735 sq ft).

Valuation

The external valuation of the Group's investment and development portfolio at 30 June 2018 totalled £433.5m (2017: £386.9m) leading to a valuation gain of £49.7m being recognised in the Group's statement of comprehensive income.

The initial yield on the portfolio decreased by 0.6% to 5.6% (2017: 6.2%) and the equivalent yield also decreased by the same amount to 6.4% (2017: 7.0%).

	Initial yield 2018	Initial yield 2017	**Equivalent yield 2018**	Equivalent yield 2017
Industrial	**5.4%**	6.4%	**6.3%**	7.0%
Office	**6.4%**	6.3%	**6.8%**	7.6%
Retail	**5.9%**	5.6%	**6.2%**	6.3%
Total	**5.6%**	6.2%	**6.4%**	7.0%

Trading properties

In April 2018 the Group entered into an option agreement over the Haden Cross land held in trading properties. The option value for the land, held at cost of £0.4m in the balance sheet, is £1.0m. The potential purchaser also entered into an option on the adjacent site, held as an investment property at valuation in the balance sheet at £0.7m, with an option price of £0.7m. The options had not been exercised at the date of this report.

Outlook

Despite the present economic and political uncertainty, our portfolio has continued to perform in terms of both income and capital.

Given investor demand for industrial property, which remains at the core of our portfolio, we expect there to be limited opportunities for us to acquire investment properties in the short-term. However, our quality investment portfolio, development land bank and strong balance sheet provide us with a strong base to pursue opportunities as we enter the next financial year.

Justin Parker
Managing Director
3 September 2018

Capital value £m

Current rent per annum £m

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Trinity Central
Solihull

Office building	Rent	Let
25,200 sq ft	£0.57m	March 2018

Finance Review

David Wooldridge, Finance Director

The Group's underlying business continues to perform well, with growth in gross rental income, occupancy level and an 18.7% increase in EPRA net asset value per share.

The low interest rate environment enabled us to refinance the £20m fixed-rate term loan taken out with Lloyds Bank in 2008 at a rate of 5.59%, replacing it with a new tranche of the Scottish Widows facility that was originally taken out in December 2016. This further tranche was fixed at 3.4%, reducing the Group's annual interest costs by £0.4m. A £3.6m early repayment charge was incurred on the refinancing, which impacts on statutory profit, but the charge is not included in the underlying profit measure or in EPRA earnings per share.

We remain conservatively financed, with all of our term debt facilities refinanced in the last two financial years. Almost half of our term debt facilities expire in 2031, our debt to equity gearing is low at 20% and we have undrawn term debt facilities of £44.0m.

Income

Gross rental income increased by £0.4m, from £23.7m to £24.1m. Rent reviews and lettings added £0.5m, acquisitions in the prior year contributed an additional £0.2m, the completed development added £0.1m and the disposals reduced income by £0.4m.

Property costs, net of service charge income, increased from £1.0m to £1.6m as a result of higher levels of refurbishment costs, including the Worcester and Trinity Central properties let in the second half of the financial year.

Administration expenses increased slightly to £3.5m (2017: £3.4m). The main reasons for the increase are agents fees on the letting of vacant space. During the year the vacancy rate moved from 4.2% at 30 June 2017, to 7.5% at 31 December 2017 (including the Worcester property mentioned above, which was returned at lease end in December) and ended the year at just 2.8%. Offsetting that increase was the inclusion of the bonuses in the previous financial year.

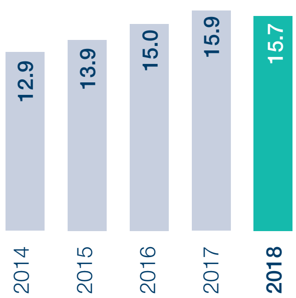
Excluding the early repayment costs of £3.6m, underlying finance costs decreased by £0.1m, as we benefited from the lower interest rate on the Scottish Widows loan from December 2016. Completion of the £20m refinance took place on 20 June 2018, so there has been a limited interest saving from the new £20m facility in the period under review.

Underlying pre-tax profit decreased from £15.9m to £15.7m, mainly as a result of the higher level of refurbishment costs noted above.

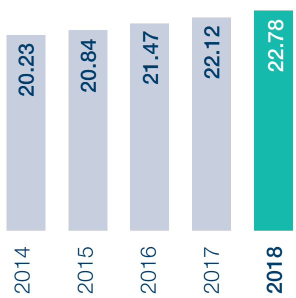
Statutory pre-tax profit increased from £29.6m to £69.5m, with a revaluation gain of £49.7m (2017: £13.0m) and profit on disposal of investment property of £7.6m (2017: £1.9m). Given the timings of the exchange and completion of the Camp Hill disposal, the movement in the valuation to sale proceeds of that property was recognised as a revaluation movement in both the interim results and the full year figures.

Basic and diluted earnings per share increased from 46.63p to 109.74p and EPRA earnings per share, which excludes the valuation gain, profit on sale of investment property and early repayment costs, was virtually unchanged at 25.06p (2017: 25.05p).

Underlying pre-tax profit £m



Ordinary dividend pence



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Finance Review
continued

Taxation
No current tax charge has been recognised in the year, as the majority of the Group's income is exempt from corporation tax due to our REIT status.

We continue to comfortably meet all of the REIT requirements and maintain our REIT status.

Underlying financial performance

2018	Total £m	Investment/ development* £m	Trading properties £m	Other items £m
Gross rental income	**24.1**	**24.1**	–	–
Service charge income	**1.0**	**1.0**	–	–
Total revenue	**25.1**	**25.1**	–	–
Property outgoings	**(2.6)**	**(2.6)**	–	–
Net property income	**22.5**	**22.5**	–	–
Sale of trading properties	–	–	–	–
Property outgoings on trading properties	–	–	–	–
Net income from trading properties	–	–	–	–
Administration expenses	**(3.5)**	**(3.5)**	–	–
Operating profit before net gains on investment	**19.0**	**19.0**	–	–
Profit on disposal of investment and development properties	**7.6**	–	–	**7.6**
Net gains on revaluation	**49.7**	–	–	**49.7**
Operating profit	**76.3**	**19.0**	–	**57.3**
Finance costs before capitalised interest	**(3.3)**	**(3.3)**	–	–
Capitalised interest	**0.1**	–	–	**0.1**
Early repayment costs	**(3.6)**	–	–	**(3.6)**
Total finance costs	**(6.8)**	**(3.3)**	–	**(3.5)**
Profit before tax	**69.5**	**15.7**	–	**53.8**

2017	£m	£m	£m	£m
Gross rental income	23.7	23.7	–	–
Service charge income	1.0	1.0	–	–
Total revenue	24.7	24.7	–	–
Property outgoings	(2.0)	(2.0)	–	–
Net property income	22.7	22.7	–	–
Sale of trading properties	–	–	–	–
Property outgoings on trading properties	–	–	–	–
Net income from trading properties	–	–	–	–
Administration expenses	(3.4)	(3.4)	–	–
Operating profit before net gains on investment	19.3	19.3	–	–
Profit on disposal of investment and development properties	1.9	–	–	1.9
Net gains on revaluation	13.0	–	–	13.0
Operating profit	34.2	19.3	–	14.9
Finance costs	(3.4)	(3.4)	–	–
Early repayment costs	(1.2)	–	–	(1.2)
Total finance costs	(4.6)	(3.4)	–	(1.2)
Profit before tax	29.6	15.9	–	13.7

* Presented above is an analysis of the underlying rental performance before tax, as shown in the investment/development column, which excludes the impact of EPRA adjustments and capitalised interest. The directors consider that this further analysis of our profit before tax gives shareholders a useful comparison of our underlying performance for the periods shown in the financial statements.

Dividend

An interim dividend of 10.18p per share (2017: 9.88p) was declared in February 2018, with 5.09p per share paid in April 2018 and 5.09p per share paid in July 2018.

Dividends totalling 12.60p per share (2017: 12.24p) are being declared in respect of the 30 June 2018 financial year, making the total in respect of the year ended 30 June 2018 22.78p per share (2017: 22.12p), an increase of 3% over the prior year. The dividends consist of a quarterly dividend of 5.30p and a final dividend of 7.30p. The quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The quarterly dividend of 5.30p will be paid on 15 October 2018 to Shareholders on the register at the close of business on 14 September 2018.

The final dividend of 7.30p will, if approved by Shareholders at the AGM, be paid on 15 January 2019 to Shareholders on the register at the close of business on 14 December 2018.

The allocation of future dividends between PID and non-PID may vary.

The Board's continued intention is to grow the rent roll to enable a sustainable, covered, increase in dividends over the long-term, with a view to distributing around 90% of our recurring profit.

The interim, quarterly and final dividends paid and proposed in respect of the financial year of 22.78p amount to 91% of the EPRA earnings per share figure of 25.06p, and are covered 1.10 times by that earnings measure.

Net assets

Net assets increased by £55.7m in the year, from £296.7m to £352.4m, mainly due to £15.7m of underlying pre-tax profit, a revaluation gain of £49.7m and profit on disposal of investment property of £7.6m, offset by ordinary dividends of £14.2m and an early repayment interest cost of £3.6m on the refinancing of the Lloyds term loan.

Net asset value per share increased by 88p, from 469p to 557p, and EPRA net asset value per share also increased by 88p, to 559p (2017: 471p).

Financing and cash flow

Operating cash flow was £7.0m lower than the prior year, at £10.1m. The decrease is mainly attributable to the increase in the early repayment costs on the refinancing and the timing of invoicing tenant charges and development costs. Cash outflows in respect of property acquisitions and capital expenditure (including a lease incentive paid to a tenant) amounted to £8.1m and borrowings decreased by £4.6m.

Equity dividends paid in the year totalled £14.1m, compared to £16.7m in the prior year, with the decrease due to the introduction of quarterly dividend payments with effect from October 2016 increasing the prior year cash outflow.

	2018 £m	2017 £m
Net cash generated from operations	**16.8**	21.3
From investment and development properties	**16.8**	21.3
From trading properties	**–**	–
Net interest paid	**(6.7)**	(4.2)
Interest payments	**(3.1)**	(3.0)
Early repayment costs	**(3.6)**	(1.2)
Taxation	**–**	–
Operating cash flow	**10.1**	17.1
Property acquisitions and development	**(6.4)**	(11.4)
Property disposals	**19.7**	4.0
Lease incentive paid	**(1.7)**	–
Net expenditure on property, plant and equipment	**–**	–
Movement in borrowings	**(4.6)**	5.7
Equity dividends	**(14.1)**	(16.7)
Net movement in cash	**3.0**	(1.3)

As previously disclosed, the majority of the Group's debt facilities were refinanced in the current and prior year. On 31 August 2016 the Group refinanced the HSBC term loan and revolving credit facilities, which now expire in 2021, a new £40m 15 year loan was taken out with Scottish Widows in December 2016 and the 2012 Lloyds term loan (£20m) was repaid in the same month. The £20m 2008 term loan with Lloyds Bank was repaid on 20 June 2018 and a new tranche of the Scottish Widows facility was taken out on the same day. The Group's £1.0m overdraft was renewed for the year to November 2018 and we expect to agree a further twelve month period for the overdraft when it comes up for renewal.

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Finance Review

continued

The table below shows the debt facility position as at 30 June 2018.

Borrowing	Expiry year	Available £m	Drawn £m	Undrawn £m
HSBC overdraft	2018	1.0	–	1.0
HSBC Revolving Credit Facility	2021	44.0	–	44.0
HSBC term loan	2021	20.0	20.0	–
Scottish Widows 15 yr term loan	2031	60.0	60.0	–
Preference shares	–	0.7	0.7	–
		125.7	80.7	45.0

Analysis of borrowings at 30 June 2018

	2018 £m	2017 £m
Borrowings from revolving credit facility 2021	**–**	4.5
HSBC term loan 2021	**19.8**	19.8
Lloyds term loan 2023	**–**	20.0
Scottish Widows term loan 2031	**59.3**	39.3
Preference share capital	**0.7**	0.7
Debt and preference share capital	**79.8**	84.3
Cash and short-term deposits	**(8.8)**	(5.8)
Net debt	**71.0**	78.5
Net assets	**352.4**	296.7
Net debt to equity gearing	**20%**	26%
Portfolio value	**433.5**	386.9
Loan to value (net debt to portfolio value)	**16%**	20%

Of the £80.7m of drawn debt shown in the table above, 75% is at fixed rates.

During the year our average cost of total debt facilities reduced by 0.1%, from 3.1% to 3.0%, or 3.6% to 3.3% on drawn amounts and the weighted average term remaining on total debt facilities increased from 7.7 years to 8.2 years.

David Wooldridge
Finance Director
3 September 2018

Principal Properties

Industrial	Area sq ft
Access Point, Leamington Spa	48,147
Amber Way, Halesowen	61,933
Apex Park, Worcester	116,400
Barton Business Park, Barton-under-Needwood	70,182
Bewdley Road, Stirchley	54,220
Birchley Island, Oldbury	41,534
Coleshill Trading Estate, Birmingham	180,565
Coleshill Trade Park, Birmingham	31,993
Coombswood Business Park, Halesowen	16,974
Crompton Fields, Crawley, West Sussex	160,551
Enterprise Trading Estate, Dudley	170,001
Flagstaff 42, Ashby-de-la-Zouch	51,151
Forge Trading Estate, Halesowen	77,102
Forward Park Trading Estate, Birmingham	54,872
Golden Cross, Aston	76,722
Grange Park, Northampton	86,018
Hazelwell Mills Trading Estate, Stirchley	95,908
Kings Hill Business Park, Wednesbury	126,295
Knightsbridge Park, Worcester	48,145
Lancaster Gate, Birmingham	11,650
Long Acre Trading Estate, Birmingham	61,640
Meridian Park, Leicester	28,002
Middlemarch, Coventry	45,092
Milton Point, Milton Keynes	41,126
Mucklow Hill Trading Estate, Halesowen	97,254
Mucklow Park i54, Wolverhampton	44,594
Neo Park, Tyseley, Birmingham	55,139
Nexus Point, Birmingham	30,192
Redfern Industrial Park, Tyseley	41,499
Redfern Park Way, Tyseley	36,000
Redwood Trade Park, Oldbury	61,207
Roman Park, Coleshill	84,916
St Andrews Trading Estate, Birmingham	29,705
Shannon Way, Tewkesbury	64,346
Shenstone Trading Estate, Halesowen	168,621
Shire Business Park, Worcester	110,345
Star Gate, Birmingham	87,315
Tachbrook Link, Leamington Spa	85,312
Triton Park, Rugby	77,698
Vantage One, Birmingham	34,920
Wednesbury One, Wednesbury	172,469
Yorks Park, Dudley	157,656

Offices	Area sq ft
Apex House, Worcester	18,606
Apex Park, Worcester	28,080
Aztec West, Bristol	31,256
Compton Court, Coventry	15,790
Dukes Gate, Chiswick, London	17,761
Grove Park, Leicester	20,829
Mucklow Office Park, Halesowen	34,703
Oak Tree Court, Coventry	30,000
Quinton Business Park, Birmingham	23,154
Trinity Central, Solihull	25,200
60 Whitehall Road, Halesowen	20,856

Retail	Area sq ft
Birchley Island, Oldbury	43,395
131/148 High Street, Bordesley	12,000
Church Gate, Leicester	19,203
202–208 High Street, Harborne	24,681
Kings Heath Retail Park, Kings Heath	16,243
64/67 High Street, Stourbridge	33,482
Prospect Way, Halesowen	32,000
Tewkesbury Road, Cheltenham	17,000
Torrington Avenue, Coventry	128,500

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Our Locations

24 Locations
308 Units
3,788,967 sq ft

Key

Industrial

Office

Retail

1 **Ashby-de-la-Zouch,** 1 unit, 51,085 sq ft

2 **Barton-Under-Needwood,** 1 unit, 70,182 sq ft

3 **Cheltenham,** 1 unit, 17,050 sq ft

4 **Milton Keynes,** 1 unit, 41,126 sq ft

5 **Northampton,** 1 unit, 86,018 sq ft

6 **Stourbridge,** 1 unit, 33,482 sq ft

7 **Solihull,** 1 unit, 25,200 sq ft

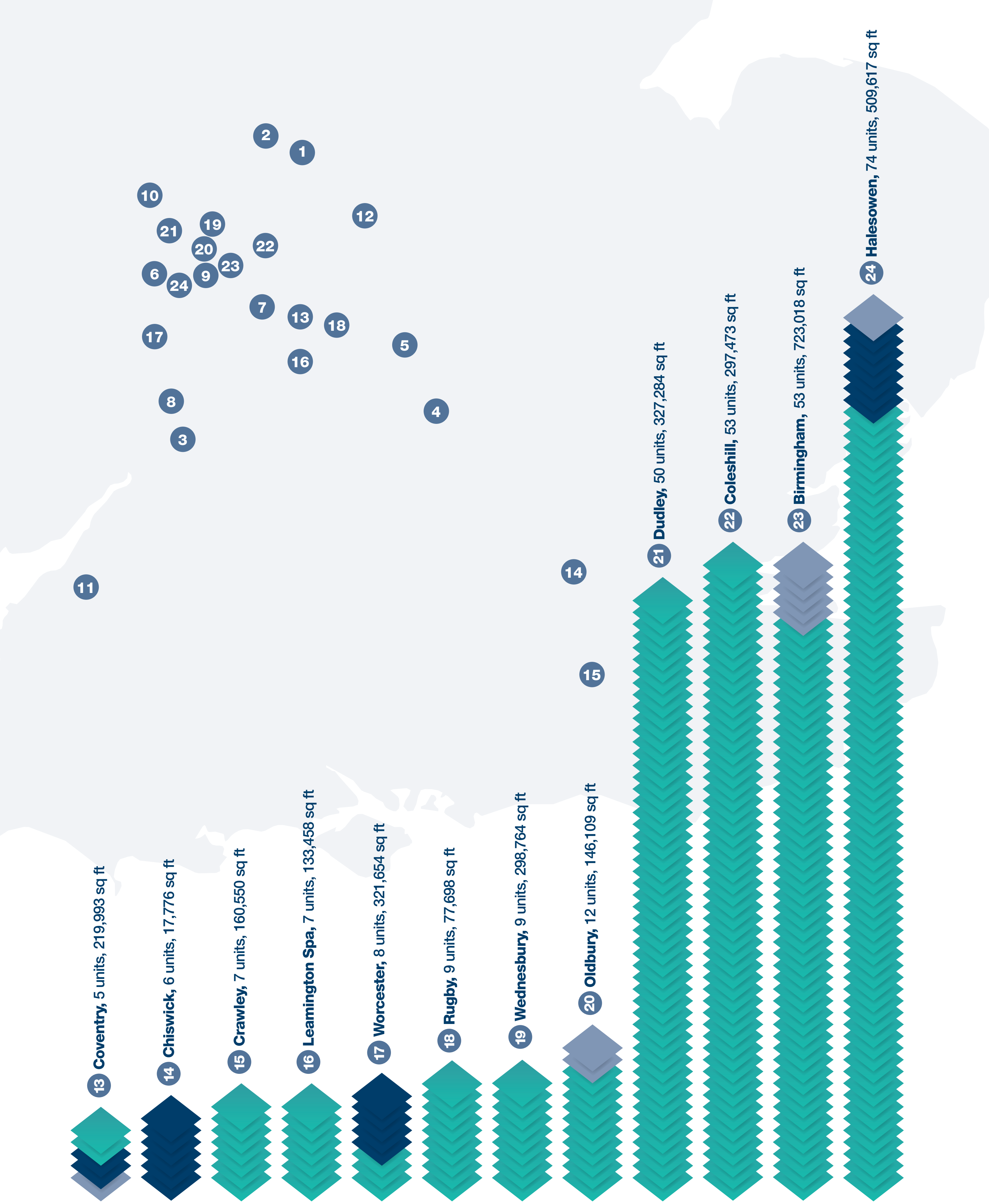
8 **Tewkesbury,** 1 unit, 64,346 sq ft

9 **Quinton,** 1 unit, 23,154 sq ft

10 **Wolverhampton,** 1 unit, 44,594 sq ft

11 **Bristol,** 2 units, 31,256 sq ft

12 **Leicester,** 3 units, 68,079 sq ft


13 Coventry, 5 units, 219,993 sq ft
14 Chiswick, 6 units, 17,776 sq ft
15 Crawley, 7 units, 160,550 sq ft
16 Leamington Spa, 7 units, 133,458 sq ft
17 Worcester, 8 units, 321,654 sq ft
18 Rugby, 9 units, 77,698 sq ft
19 Wednesbury, 9 units, 298,764 sq ft
20 Oldbury, 12 units, 146,109 sq ft
21 Dudley, 50 units, 327,284 sq ft
22 Coleshill, 53 units, 297,473 sq ft
23 Birmingham, 53 units, 723,018 sq ft
24 Halesowen, 74 units, 509,617 sq ft

Principal Risks and Uncertainties

The Board recognises that risk management is essential for the achievement of the Group's objectives and is responsible for the system of internal control and the review of its effectiveness.

The Board has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place throughout the current year and up to the date of approval of this annual report and financial statements. Whilst the principal risks have remained unchanged during the year, the process is robustly assessed by the Board, based on reports from management, and accords with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The small size of the management team and regular consideration of risk areas allows management to respond quickly to changing events.

Details of the principal risks facing the Group, and the steps taken to mitigate those risks are set out below. The Board recognises that it has limited control over many of the external risks faced by the Group, but the impact of those risks, such as the macro-economic environment, are considered in the decision-making process.

EU Referendum

Although there has been a period of uncertainty since the announcement of the result of the EU referendum, there has not, as yet, been any material impact on our occupational and investment markets.

Whilst the negotiations for the UK exit arrangements are continuing, it is difficult to predict the long-term impact on our business. However, the Group's portfolio, geographically focused on the Midlands and on industrial property, is currently expected to be less directly impacted than other property market segments.

The mitigations set out below, as well as the Group's currently low level of voids and net debt to equity gearing, and the shorter time period involved in industrial development, provide some protection against the risks.

The Board and senior management team will continue to monitor political and economic developments and the Group's portfolio, as well as the wider property market, and react to any changes accordingly.

Viability statement

In accordance with code provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Group beyond the normal 12 month period required by the going concern provision.

The principal risks to the continued operation of the Group have been reviewed and subjected to scenario testing and sensitivity analysis, including consideration of the implications of a decline in both income and capital values, as well as rising interest costs.

A three-year period (2017: three-year period) has been used for the assessment. This time frame is considered appropriate as it complies with the Group's internal forecast period and is a reasonable period for matters including the assessment of income, the availability of existing debt funding and potential access to additional debt funding if required.

Based upon the assessment outlined above, subject to any significant events outside of the control of the Group, the Directors have a reasonable expectation that the Group will be able to continue operations and meet its foreseeable liabilities as they fall due over the period to 30 June 2021.

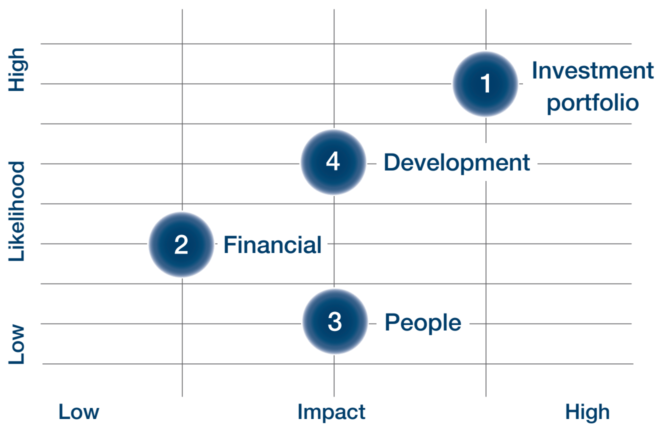
Going concern

As at 30 June 2018 the Group had £44.0m of undrawn term bank facilities and had not drawn any funds from the HSBC £44.0m 2021 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this report, was undrawn. The Group has substantial headroom in its debt covenants and has a secure income stream from a diversified source pool of occupiers, without undue reliance on a single tenant.

Given these facilities, which expire at the earliest in 2021, the Group's low level of net debt to equity gearing of 20% and £112.2m of unencumbered properties, significant capacity exists to raise additional finance or to provide additional security for existing facilities, should property values fall.

The Directors have reviewed the current and projected financial position of the Group and compliance with its debt facilities, including a sensitivity analysis. On the basis of this review, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Risk heat map



Key risk areas for the Group

Risk area	Mitigation	Movement in the period
1. Investment portfolio – Tenant default – Change in demand for space – Market pricing affecting value	– Portfolio diversification between industrial, office and retail properties with different tenant profiles, covenants, building sizes and lease lengths – Building specifications not tailored to one user – Not reliant on one single tenant or business sector – Focused on established business locations for investment acquisitions and developments – Environmental reports for acquisitions – Continual focus on current vacancies and expected changes	↔ There is a shortage of quality industrial stock for both occupiers and investors in our market. Occupancy levels and capital values have increased in the period.
2. Financial – Reduced availability or increased cost of debt finance – Interest rate sensitivity – REIT compliance	– Low net debt to equity gearing policy – Large, unencumbered property portfolio available as security – Existing facilities sufficient for spending commitments – Fixed rate debt in place – Internal procedures in place to track compliance	↔ Interest rates have remained at historic levels. A fixed rate loan expiring in 2023 was refinanced at a lower rate into a facility expiring in 2031, reducing the Group's average cost of debt and improving the average term remaining.
3. People – Retention/recruitment	– Key man insurance – Remuneration structure reviewed – Regular assessment of performance	↔ The Group has a small team of employees with a very low level of turnover. Remuneration packages and training needs are regularly reviewed.
4. Development – Speculative development exposure on lettings – Cost/time delays on contracts – Inability to acquire land – Holding too much development land	– Limited exposure to speculative development – Buildings designed to be suitable for a range of tenants – Speculative development is focused on small to medium sized occupiers in well-established business locations – Use of main contractors on fixed price contracts, with contingencies built into appraisals – The main Board carefully considers all development land acquisitions to ensure exposure is limited to reasonable levels and that prices paid are realistic	↔ No speculative development was undertaken in the year. One pre-let unit has been developed and another pre-let unit is being progressed. A planning application for a small speculative scheme has been submitted. At 30 June 2018 development land represented 2% of the value of the Group's investment and development portfolio.

Key to Risk Trend

No change	Trend up	Trend down
↔	↑	↓

Corporate and Social Responsibility

The Group is committed to delivering its strategic objectives in an ethical and responsible manner.

Human rights

The Group recognises that our employees are a key element in the continued success of the business. The Board believes in the continuous development of employees and provides support through access to relevant training and performance appraisals. Employee rights are set out in the Group's Employee Handbook.

The Group has a relatively flat management structure, with clear roles and responsibilities.

All employees are well incentivised through their remuneration package and all qualifying employees (excluding non-executive directors) participate in the performance of the Group through a Share Incentive Plan.

Eligible senior management also participate in a shareholder approved Performance Share Plan, with performance measured against comparator total shareholder return. Executive directors are expected to build up a shareholding with a value equivalent to 200% of their base salary over a period of time, further aligning their interests with shareholders.

We aim to promote employee well-being through flexible working, medical support and access to gym facilities. There has been no staff turnover in the year.

The Group has not used temporary employees or contractors for employee roles during the year.

Due to the small number of employees in the Group (11 employees and 4 non-executive directors), no strategic targets are set by the Board in this area. Although the Group does not have a separate human rights policy, we seek to avoid business practices that would adversely affect human rights. Our operations, as a property investor and developer, are based solely within the United Kingdom, and are considered to be a low risk in relation to human rights issues. No issues relating to human rights have arisen in the current or prior years.

Equality and diversity

As at 30 June 2018, the composition of the Group's employees, including both Executive and Non-Executive Directors, was as follows:

	Male	Female
Directors (including Non-Executives)	7	–
Senior Management	3	1
All other staff	–	4

The Board are conscious of the increased focus on diversity in the boardroom and acknowledge the importance of diversity, but note that changes to the composition of the Board should not be forced. When future appointments to the Board are considered, as part of the gradual refreshing of the Board, the Nomination Committee believes that the best person for the role should be selected, whilst recognising the benefits of diversity when considering a particular appointment.

Environmental and social policy

The Group has an environmental and social policy addressing the importance of those issues in the day-to-day running of the business, which is detailed below.

Environmental policy

There are five main areas of the environmental policy:

- An independent environmental report is required for all potential acquisitions, which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination present.
- Consideration is given in the design process of development and refurbishment projects to the choice of materials used to avoid the use of materials that are hazardous to health or damaging to the environment.
- An ongoing examination of the business activities of existing and new tenants is carried out to prevent pollution risks occurring. The Group monitors all incoming tenants through its insurance programme to identify potential risk, and high-risk business activities are avoided. As part of the active management of the portfolio any change in tenant business practice considered to be an environmental hazard is reported and suitably dealt with.
- All sites are visited at least annually and any obvious environmental issues are reported to the Board.
- All leases prepared after the adoption of the policy will commit occupiers to observe any environmental regulations.

Any problems are referred to the Managing Director immediately and the Board of Directors at the next Board meeting.

Social policy

The activities of the Group are carried out in a responsible manner, taking into account the social impact. The two main areas of social impact have been identified as planning and developments/refurbishments.

Planning

The Group considers the impact on the surrounding areas and communities where planning permissions are to be submitted and considers the legitimate concerns of interested parties as part of the process.

Developments and refurbishments

Development and refurbishment projects are subcontracted. The Group monitors the works, directly and in conjunction with project managers on larger projects, to ensure they are carried out in accordance with relevant guidelines and laws. All subcontractors are assessed to ensure that they have sufficient resources to meet legal requirements.

Review and responsibility

The Social and Environmental policy, which applies to all companies in the Group, is reviewed annually as part of the Group's Risk Committee meetings. The Managing Director has main Board responsibility for social and environmental issues. Responsibility for health and safety, equal opportunities and business ethics is given to the whole Board.

Health and safety

The Board recognises the importance of maintaining high standards of health and safety in all areas of the Group's business and receives a report from the Managing Director at each board meeting.

The Group has appointed external consultants to advise on health and safety issues and policies and assess contractors. The health and safety policy is annually reviewed by the external consultants. A health and safety committee, chaired by the Managing Director, meets quarterly to consider any issues arising, including the training needs of relevant employees. The external consultants attend the committee meetings on an annual basis.

All members of the senior management team, including executive directors directly involved in property matters, have received external health and safety training.

There were no significant issues to report in the current or prior year.

Greenhouse gas emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the Company is required to report annual greenhouse gas emissions. The details for the financial year ended 30 June 2018 appear in the table below. Data for the financial year ended 30 June 2017 is included for comparison purposes.

Sources of greenhouse gas emissions	**2017/18 tCO_2e**	2016/17 tCO_2e
Scope 1		
Gas, refridgerants and car	**39**	57
Scope 2		
Landlord controlled	**216**	224
Total footprint	**255**	281
Intensity measure	**tCO_2e/sq ft**	tCO_2e/sq ft
Emissions per 000s sq ft	**0.3**	0.5

We have used the operational control method to outline our carbon footprint boundary. Usage procured and consumed directly by our occupiers is excluded. Emissions from vacant space have been included.

The methodology used to calculate our emissions is based on the GHG Protocol Corporate Accounting Standard (revised edition) and guidance provided by the UK's Department for Environment, Food and Rural Affairs (DEFRA) on mandatory carbon reporting. We have used UK emission factors published by the Department for Business, Energy & Industrial Strategy (BEIS). The 2016/17 figures were re-calculated this year for more accurate reporting. Electricity consumption reporting was updated as we obtained additional data for landlord procured occupier supplies. Gas consumption reporting was amended for one site as we obtained historical meter data to use instead of invoice data.

The figures above show that our absolute footprint has decreased for Scope 1 emissions, which is largely due to a reduction in refrigerant usage in 2017/18. Scope 2 emissions have also decreased which is due to a lower electricity emissions factor for the UK grid. The scope of data collection was greater this year due to improvements in energy procurement processes resulting in a number of additional small supplies being reportable.

We will continue to review and develop our energy management and GHG reporting programme through the 2018/19 financial year.

Donations

No political contributions were made during the year (2017: £nil) and donations to local and national charities amounted to £6,048 (2017: £2,020).

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Corporate and Social Responsibility

continued

Board statement

The Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the business model, strategy, position and performance. As part of the process to consider this statement the Board as a whole have reviewed the full Annual Report and Financial Statements, the Audit Committee have reviewed and approved the Annual Report and Financial Statements and considered a report from the Finance Director on the areas that the Directors should take into account in making the statement.

Stategic report approval

The Strategic Report, outlined on pages 02 to 22, incorporates the Chairman's Statement, Strategy and Business Model, Property Review, Finance Review, Principle Risks and Uncertainties, and Corporate and Social Responsibility.

By order of the Board

David Wooldridge
Company Secretary
3 September 2018

Governance Report

Chairman's Introduction to Governance

Dear Shareholder

This section of the annual report sets out the Group's approach to corporate governance and how it is implemented.

The Board is responsible for promoting the long-term success of the Group, taking into account the interests of our shareholders, customers and other stakeholders.

As Chairman, I am responsible for the efficient and effective operation of the Board and to ensure that high standards of governance are upheld. Our flat management structure, small team and high degree of involvement by the executive directors ensure that good governance extends beyond the boardroom and that decisions are made at the appropriate level within the organisation.

Recognising Stephen Gilmore's tenure as a non-executive director, the Nomination Committee was instructed to recruit a new independent non-executive who could take over as Chairman of the Remuneration Committee when Mr Gilmore steps down from the Board.

James Retallack was identified as a suitable candidate and joined the Board on 1 June 2018.

After considering the July 2018 UK Corporate Governance Code (the "2018 Code") provision about the appointment of a remuneration committee chairman, Mr Gilmore has been asked to remain on the Board and as Chairman of the Remuneration Committee until the end of our financial year on 30 June 2019. Mr Retallack, who will by then have served on the Committee for more than 12 months, will become Chairman of the Remuneration Committee on 1 July 2019.

The Board will consider the details of the 2018 Code during the 2019 financial year and report on any changes that are considered necessary in the 2019 annual report. Given the need to put the Group's remuneration policy to a shareholder vote at this year's AGM, the Remuneration Committee have taken external advice about the implications of the 2018 Code and Mr Gilmore's opening letter to the Board Report on Directors' Remuneration on page 34 provides further details.

I look forward to meeting you at our Annual General Meeting on Tuesday 13 November 2018.

Rupert Mucklow
Chairman
3 September 2018

Directors and Officers

Rupert Mucklow BSc
Chairman‡
Aged 55

Joined the Group in 1990. Rupert was appointed as an executive director in 1995, Managing Director in 1996, Deputy Chairman in 2001 and Executive Chairman in 2004. He acts as Chairman of the Nomination Committee.

Justin Parker BSc FRICS
Managing Director
Aged 53

Joined the Group as Managing Director in 2004. Justin was previously National Head of Investment at DTZ Debenham Tie Leung.

David Wooldridge FCCA ACIS
Finance Director
Aged 46

Joined the Group in 1996. David was appointed as Company Secretary in 2002 and Finance Director in 2007.

Ian Cornock MRICS
Senior Independent Non-Executive*†‡
Aged 55

Appointed to the Board in 2016. Currently Lead Director for the Midlands Region of Jones Lang LaSalle (JLL) and has over 30 years' experience in commercial property, the last 18 years running the Birmingham offices of Colliers, King Sturge and JLL.

Stephen Gilmore LLB
Independent Non-Executive*†‡
Aged 63

Appointed to the Board in 2008. Stephen is a qualified solicitor, who was previously partner in charge of the Birmingham office of Cobbetts LLP. Chairman of the Remuneration Committee.

Peter Hartill FCA
Independent Non-Executive*†‡
Aged 69

Appointed to the Board in 2016. A non-executive director and Chairman of the Audit Committee of Paragon Banking Group plc, Chairman of Deeley Group Limited and a non-executive director of Scott Bader Limited. Peter was formally a Senior Audit Partner with Deloitte, where he spent over 40 years based mainly in the Midlands, before leaving in 2008. Chairman of the Audit Committee.

James Retallack
Independent Non-Executive*†‡
Aged 61

Appointed to the Board on 1 June 2018. James is a qualified solicitor and was Senior Partner at Edge & Ellison (now Squire Patton Boggs LLP) until 2001. He joined Aggregate Industries plc in 2001 as Group Resources Director and latterly Legal and Compliance Director, as a Board and Executive Committee member, until he left the company in 2011. He is currently a director of two private property companies.

* Member of the Remuneration Committee. † Member of the Audit Committee. ‡ Member of the Nomination Committee.

Professional Advisers

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West Midlands, B63 3JS
Tel: 0121 550 1841
Fax: 0121 550 7532
Website: **www.mucklow.com**
Company No. 717658

Auditor
KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham, B4 6GH

Tax adviser
Deloitte LLP
Four Brindleyplace
Birmingham, B1 2HZ

Stockbrokers
Arden Partners plc
5 George Road
Edgbaston
Birmingham, B15 1NP

Stifel Nicolaus Europe Limited
150 Cheapside
London, EC2V 6ET

Bankers
HSBC Bank plc
120 Edmund Street
Birmingham, B3 2QZ

Lloyds Bank Commercial Banking
125 Colmore Row
Birmingham, B3 3SF

Scottish Widows Ltd
25 Gresham Street
London, EC2V 7HN

Corporate Advisers
Arden Partners plc
125 Old Broad Street
London, EC2N 1AR

Property Valuers
Cushman & Wakefield*
No.1 Colmore Square
Birmingham, B4 6AJ

* Cushman & Wakefield is the trading name of Cushman & Wakefield Debenham Tie Leung Limited.

Registrars
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Solicitors
Gowling WLG (UK) LLP
Two Snowhill
Birmingham, B4 6WR

Pinsent Masons LLP
55 Colmore Row
Birmingham, B3 2AA

Financial PR
TooleyStreet Communications Limited
Regency Court
68 Caroline Street
Birmingham, B3 1UG

Senior Management

Stuart Haydon MRICS
Portfolio Manager

Gemma Lane ACMA CGMA
Company Accountant

David Tuft
Property Manager

Mark Vernon MRICS
Investment

MUCKLOW

Statement of Corporate Governance

UK Corporate Governance Code

The Company has complied with the Code provisions set out in the 2016 UK Corporate Governance Code throughout the year ended 30 June 2018.

The UK Corporate Governance Code is publicly available at www.frc.org.uk.

The Company has applied the principles set out in the Code, including both the main principles and supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below.

The Company is considering the July 2018 UK Corporate Governance Code, which will apply to the Company from 1 July 2019, and will report to Shareholders more fully in the 2019 annual report.

The Board

For the year under review, the Board comprised three executive directors: Rupert Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director). Three non-executive directors held office for the whole of the financial year: Ian Cornock (Senior Independent Non-Executive), Stephen Gilmore and Peter Hartill. James Retallack was appointed to the Board as a non-executive director on 1 June 2018.

The Board of Directors is responsible to Shareholders for the management and control of the Company. The Board operates within agreed matters reserved for its approval, which cover the key areas of the Group's affairs, including:

- all aspects of strategy;
- material property acquisitions;
- disposals; and
- financing arrangements.

The roles and responsibilities of the Chairman and Managing Director are defined in writing, with the Chairman responsible for the administration of the Board, whilst the Managing Director co-ordinates the Group's business and implements strategy. The terms and conditions of the non-executive directors are available for inspection at the Company's office during normal working hours.

Board meetings are held ten times a year and each Board member is provided with a report pack which contains financial and operational information. The Board is responsible for agreeing the major matters affecting the running of the business, as well as monitoring and reviewing performance and operating risks.

A key area of consideration for the Group is the independence of non-executive directors. The Board has considered the Code's indicators of a lack of independence for non-executive directors and, as previously stated, all of the Group's non-executive directors are considered to be independent for the reasons stated below.

Ian Cornock was appointed as a non-executive director on 21 March 2016. The Board has considered Mr Cornock's position and the fact that he has had no previous involvement with the Group and confirms that he is independent.

Stephen Gilmore was appointed as a non-executive director on 13 May 2008. The Board has considered Mr Gilmore's position and the fact that he has had no previous involvement with the Group and confirms that he is independent.

Peter Hartill was appointed to the Board on 1 July 2016. The Board has considered Mr Hartill's position and the fact that he has had no previous involvement with the Group, and confirms that he is independent.

James Retallack was appointed to the Board on 1 June 2018. The Board has considered Mr Retallack's position and the fact that he has had no previous involvement with the Group, and confirms that he is independent.

The Board has annual performance appraisals. The Board as a whole considers its performance and the performance of its subcommittees. The Chairman carries out the review of the non-executive directors, the non-executives review the Chairman, and the Chairman and non-executives review the remaining executive directors. The questions set out in the Higgs guidance are considered, where relevant to the Group. The Chairman confirms that, where applicable, any non-executive director seeking re-election is considered to be effective in their role and to be committed to making available the appropriate time for Board meetings and other duties. As part of the annual performance appraisal process, the training needs for the Board members are considered and, where necessary, acted upon.

Subject to the comment below about Mr Gilmore, all directors are required to submit themselves for re-election every three years, or at the first Annual General Meeting following their appointment.

Justin Parker, Stephen Gilmore and James Retallack are seeking re-election as directors at the 2018 Annual General Meeting.

Justin Parker (53), Managing Director, joined the Group in 2004, having previously been national head of investment at DTZ Debenham Tie Leung.

Stephen Gilmore (63), was appointed a non-executive director on 13 May 2008, having previously been partner in charge of the Birmingham office of Cobbetts LLP. As he has served as a non-executive director for over nine years, in accordance with the Company's Articles of Association and the UK Corporate Governance Code, he is accordingly retiring from office and offering himself for reappointment by shareholders at the Annual General Meeting. Subject to his reappointment at the Annual General Meeting, Mr Gilmore is intending to step down from the Board on 30 June 2019.

James Retallack (61), was appointed a non-executive director on 1 June 2018. James is a qualified solicitor and was Senior Partner at Edge & Ellison (now Squire Patton Boggs LLP) until 2001. He joined Aggregate Industries plc in 2001 as Group Resources Director and latterly Legal and Compliance Director, as a Board and Executive Committee member, until he left the company in 2011. He is currently a director of two private property companies.

All directors have access to the advice and services of the Company Secretary and there are procedures in place for a director to obtain independent professional advice, where necessary, at the Company's expense.

David Wooldridge acts as Finance Director and Company Secretary for the Group. Given the size of the Group, it is not considered necessary or cost-effective to split the roles of Finance Director and Company Secretary.

The attendance of the directors at scheduled Board meetings during the year ended 30 June 2018 was as follows:

Number held	Board	Audit	Remuneration	Nomination
Rupert Mucklow	10/10	n/a	n/a	2/2
Justin Parker	10/10	n/a	n/a	n/a
David Wooldridge	10/10	n/a	n/a	n/a
Ian Cornock	10/10	3/3	4/4	2/2
Stephen Gilmore	10/10	3/3	4/4	2/2
Peter Hartill	10/10	3/3	4/4	2/2
James Retallack*	1/1	0/0	1/1	0/0

n/a indicates not a member of that committee.

* James Retallack was appointed to the Board on 1 June 2018.

Board committees

The Board has three subcommittees, the Audit Committee, the Remuneration Committee and the Nomination Committee. Peter Hartill acts as Chairman of the Audit Committee and Stephen Gilmore acts as Chairman of the Remuneration Committee. Rupert Mucklow (Group Chairman) acts as Chairman of the Nomination Committee.

Written terms of reference have been agreed for each of these committees, and these are available on request from the Company Secretary or from the Company's website (www.mucklow.com).

Audit Committee

Peter Hartill has been designated as the member of the Audit Committee with recent and relevant financial experience, being a chartered accountant and former partner of Deloitte LLP. He is also chair of the audit committee of Paragon Banking Group plc.

The role and composition of the Audit Committee and details of the work performed during the year are set out in the Audit Committee Report on pages 30 to 33.

The Company believes the Committee contains the right balance of skills, knowledge and experience to support the business in achieving its strategy.

Remuneration Committee

The Remuneration Committee comprised Stephen Gilmore (Chairman), Ian Cornock (Senior Independent Non-Executive) and Peter Hartill until 1 June 2018. From 1 June 2018 the Remuneration Committee comprised Stephen Gilmore, Peter Hartill, Ian Cornock and James Retallack. The Remuneration Committee consists of non-executive directors, whose remuneration is decided by the executive directors.

The Remuneration Committee measures the performance of the executive directors and key members of senior management before recommending their annual remuneration.

The Committee consults the Chairman and Managing Director about its proposals and has access to professional advice from inside and outside the organisation.

The Board Report on Directors' Remuneration is set out on pages 34 to 49.

Nomination Committee

The Nomination Committee comprised Rupert Mucklow (Group Chairman), Ian Cornock (Senior Independent Non-Executive), Stephen Gilmore and Peter Hartill until 1 June 2018. From 1 June 2018 the Nomination Committee comprised Rupert Mucklow, Ian Cornock, Stephen Gilmore, Peter Hartill and James Retallack.

The Committee normally holds meetings when requested by the Chairman of the Committee.

The Committee is responsible for:

- Reviewing changes to the Board and making recommendations to the Board, including succession planning;
- Considering the most appropriate method of recruitment for new Board members; and
- Any other work set by the Board of directors.

The Committee has access to external professional advisers (legal or otherwise), where required to fulfil its responsibilities listed above.

Statement of Corporate Governance

continued

The Nomination Committee is conscious of the increased focus on diversity in the boardroom. The Board acknowledges the importance of diversity, but notes that changes to the composition of the Board should not be forced. When future appointments to the Board are considered, as part of the gradual refreshing of the Board, the Nomination Committee believes that the best person for the role should be selected, whilst recognising the benefits of diversity when considering a particular appointment.

During the year under review the Nomination Committee met twice to consider the appointment of an independent non-executive director to succeed Stephen Gilmore as Chairman of the Remuneration Committee.

The Nomination Committee identified a number of potentially suitable candidates and selected Mr Retallack as an appropriate candidate as both a non-executive director and future Remuneration Committee Chairman. He joined the Board on 1 June 2018.

Shareholders

The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received either verbally or in writing. All Shareholders have at least 20 working days' notice of the Annual General Meeting where all directors and committee members intend to be available to answer questions.

At the Annual General Meeting all votes are dealt with on a show of hands and the level of proxy votes is indicated. Votes on separate issues are proposed as separate resolutions.

Shareholders have access to the preliminary press announcement which is issued through the Company website, www.mucklow.com.

The Chairman and Finance Director regularly update the Board with the views of shareholders and analysts.

Conflicts of interest

The Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation or subsequently if they think this is appropriate. Only independent directors (in other words, those who have no interest in the matter being considered) will be able to take the relevant decision and, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success.

Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control

The Board is responsible for the system of internal control and the review of its effectiveness.

The Board has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place throughout the current year and up to the date of approval of this annual report and financial statements. The process is regularly reviewed by the Board, based on reports from management, and accords with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Key features of the system of internal control include:

- The executive directors' close involvement in all aspects of the day-to-day operations of the business, including regular meetings with senior management to review all aspects of the business;
- Attendance by the Directors at the interim and year-end valuation meetings between the property valuer and auditor;
- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A formal whistleblowing policy;
- Defined schedule of matters reserved for the Board; and
- Twice yearly internal controls meetings of the Board, to discuss the effectiveness of internal controls and formally consider business risks. Issues are also raised at monthly Board meetings as appropriate.

Group strategy is regularly reviewed at the monthly Board meetings and progress on developments is reported at each Board meeting.

The Board has considered the requirements of the Bribery Act 2010 and has taken steps to ensure that it has adequate procedures in conformity with the requirements as set out by the Act. The Group's policies have been communicated to all employees through the Employee Handbook and relevant employees have received external training.

The Board does not allow facilitation payments.

Responsibility for the Group's bribery prevention policies rests with the Group Board, with the Managing Director taking on day-to-day responsibility.

Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with any areas which come to management's and the Board's attention.

No internal audit function is considered necessary because of the size and complexity of the Group and the systems and procedures already in place. The need for an internal audit function is reviewed annually.

Statement on internal control

The directors are responsible for the system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the effectiveness of the system of internal control for the financial year and the period to the date of approval of the financial statements and confirms that it has not been advised of any failings or weaknesses which it regards to be significant. The key control procedures are described under the following six headings.

1. Financial reporting

The Group operates a budgetary system with annual rolling budgets containing monthly statement of comprehensive income, balance sheet and cash flow information. The preparation of these budgets incorporates a review of the commercial and other risks facing the Group together with the identification of the key performance indicators to be used by management in monitoring the Group's financial activities and managing the commercial risks faced by the Group. Actual performance against budget is monitored monthly at main Board meetings using the established performance indicators and exception reporting.

2. Quality and integrity of personnel

The Group recognises the importance of the quality and integrity of its personnel and attention is paid to the experience and capabilities of staff and their training needs. The standards of employee conduct expected by the Group are formally documented and communicated.

3. Operating unit controls

The Group has a comparatively simple operating structure which comprises four investment companies and a trading company. The subsidiary companies are all based in one location, which is at the registered office, and conform to the same reporting and control requirements as the Group.

4. Computer systems

The Group is reliant on an effective computer system to operate its business. The system that it uses is both modern and simple, being a file server based network. The principal operating software is provided by Qube, a leading supplier of generic software to the property management industry. It is fully integrated which provides comfort on the integrity of data transfer between the accounts and property management suites. The Group has a contingency plan in place to cater for complete loss or failure of its own data processing facility and has taken recommended steps to ensure the security of data on the network.

5. Controls over central functions

The implementation and day-to-day operation of the control procedures is the responsibility of the executive directors and senior management. Given the nature and size of the Group's business, the executive directors review and approve all significant transactions, particularly those relating to property purchases and sales, capital expenditure and borrowing arrangements.

The Group uses external managing agents on its property portfolio and the terms of their contracts and performance are regularly reviewed.

6. Role of the executive directors

Day-to-day management of the Group's activities is delegated by the Board to the executive directors. All operating units report to the executive directors. They monitor the effectiveness of operations and report to the monthly Board meetings.

Audit Committee Report

Peter Hartill, Chairman, Audit Committee

Dear Shareholder

Welcome to the Report of the Audit Committee.

Main focus 2017/18

The Committee is responsible for reviewing and reporting to the Board on the half-year and annual financial statements and the process that is used to provide them. As part of that process the Committee meets with the Company's auditor, KPMG LLP, who produce a detailed report covering their audit plans, level of materiality and any issues identified during the course of their half-year review and year-end audit together with recommendations for improving accounting systems. No major issues have been raised.

Property valuations remain the primary focus in preparing the financial statements. The Committee met with the Company's valuer, Cushman & Wakefield, at both the half-year and full year valuation meetings to ensure it was comfortable with the process and their independence.

The Board is satisfied that the Audit Committee as a whole has competence in the real estate sector and I am deemed to meet the specific requirement of having recent and relevant financial experience.

I trust you will find this report to be a useful summary of the work performed by the Committee during the year under review. I ask you to support the resolutions concerning the reappointment of KPMG LLP and for the directors to determine their remuneration at the AGM in November.

Peter Hartill
Chairman of the Audit Committee
3 September 2018

Composition of the Audit Committee

The Audit Committee comprised:

Peter Hartill – Chairman
Stephen Gilmore
Ian Cornock
James Retallack (from 1 June 2018)

Responsibilities

- To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- To advise the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model, strategy and risks;
- To review the going concern statement and viability statement and supporting information and recommend them for approval to the Board;
- To monitor and review the effectiveness of the Company's internal control environment and the processes in place to monitor this, including reviewing the need for an internal audit function;
- To make recommendations to the Board, for it to be put to shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- To ensure appropriate safeguards are in place for individuals to raise issues with the Board where a breach of conduct or compliance is suspected through the Group's whistleblowing policy.

Meetings

The Audit Committee meets at least three times a year; in September to consider the annual report and preliminary announcement and external audit findings; in February to consider the interim report and interim announcement and external review findings; and in May to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members and the external auditor, as well as, by invitation, the executive directors. The attendance of the Committee members is shown on page 27.

The Committee allows time to speak with the external auditor without the executive management present at the end of each meeting.

2018 principal activities

- Reviewing the preliminary announcement, annual report and the interim report. As part of these reviews the Committee received a report from the external auditor on their audit of the annual report and financial statements and review of the interim report;
- Reviewing and agreeing the scope of the statutory audit work and any additional assurance work to be undertaken;
- Agreeing the fees to be paid to the external auditor;
- Gaining assurance around the external valuation of the property portfolio and the independence of the valuers;
- Considering the accounting treatment and reporting of property purchases and disposals entered into in the period;
- Reviewing the need for an internal audit function; and
- Reviewing the assumptions, sensitivities and principal risks identified by management in their assessment prepared to support the viability statement disclosure, and whether they are reasonable in light of the sector in which the business operates and adequately reflect whether the period chosen is a fair reflection of the forecast period considered by management.

MUCKLOW

Audit Committee Report

continued

Primary areas of judgement in relation to the 2018 Annual Report and Financial Statements

The Committee considers the significant judgements made in the Annual Report and Financial Statements and receives reports from management and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

Property valuation

The valuation of the Group's property portfolio, £433.5m at 30 June 2018, is fundamental to the Group's balance sheet and reported results. The external auditor meets with the valuer, using real estate specialists where applicable, and reports back to the Committee on their review. The Committee also gains comfort from the valuers methodology, receives commentary from management and other supporting market information. Members of the Committee attend the meeting of the valuer and external auditor on a regular basis.

Covenant compliance

Although covenant compliance is a matter for the whole Board, and the Group remains lowly geared at 20%, the Committee considers reports by management to support the Group's going concern statement and viability statement in financial reports, which include covenant headroom, sensitivity analysis, undrawn facilities and forecasts. The external auditor shares their review of these papers and the assumptions with the Committee.

The Committee was satisfied that both of the issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Audit Committee debated the issues with the external auditor, who had concurred with the judgement of management.

The Audit Committee has noted the inclusion of the valuation of the parent company's investment in subsidiary undertakings in KPMG's report to the members of A & J Mucklow Group plc. The Committee considers the external auditor's comments on the valuation of the subsidiary undertakings that are included in the report to the committee and in the audit report to the members, but do not consider the valuation of the subsidiary undertakings to be a key audit risk area for the Group.

Risk management

The whole Board reviews internal controls and further details are included in the Governance Report on page 29.

A summary of the key risks and uncertainties to which the business is exposed is set out on page 19.

Internal audit

No internal audit function is considered necessary because of the size and complexity of the Group, the close involvement of the executive directors with the day-to-day operations of the Group and the systems and procedures already in place. The need for an internal audit function is reviewed annually.

The Audit Committee has the power to commission specific additional assurance work from time to time as it sees fit.

The external audit, review of its effectiveness, non-audit services and auditor reappointment

The Audit Committee annually reviews the level of effectiveness of the external auditor, audit and non-audit fees paid to, and the internal independence policies of, the external auditor. The Committee does not consider that there is any risk to the independence or objectivity of the audit.

The Committee has reviewed the report on KPMG LLP issued by the Financial Reporting Council in June 2018 and discussed its contents with our audit team.

The review of the 2017 external audit was conducted internally. The Committee agreed a framework to assess the effectiveness of the audit approach and considered the views of the finance team. Following this review, the Committee was satisfied that the external auditor for the financial year ended 30 June 2017, KPMG LLP, performed effectively. Following the issue of the 2018 Annual Report, the Committee will review the effectiveness and quality of the 2018 external audit.

No non-audit fees, other than the half-year review, were paid to KPMG LLP in respect of the financial year ended 30 June 2018.

The Audit Committee reviews the appointment of the external auditor, as well as their relationship with the Group, including monitoring the Group's use of the auditor for non-audit services and the balance of audit and non-audit fees paid to the auditor.

A new non-audit fee policy was adopted during the prior year to ensure objectivity and independence, and to reflect best practice in this area. The Audit Committee, who consider the appointment of the external Auditor for non-audit work, implemented a policy that adopts the EU Regulations introduced in June 2016.

The key features of the policy are as follows:

- A schedule of services that are potentially permitted has been established;
- A pre-defined schedule of prohibited services has been established; and
- Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later).

Where the fee for any of the potentially permitted services exceeds £10,000, the consent of the Audit Committee will be required in advance of appointment.

KPMG LLP were appointed following completion of the 2015 Audit, after a tender process was undertaken. They have signified their willingness to be reappointed as the Group's external auditor. Ordinary resolutions reappointing them as auditor and authorising the Audit Committee to set their remuneration will be proposed at the 2018 Annual General Meeting.

Following the EU Audit Directive taking effect for financial years starting on or after 17 June 2016, the Group has adopted a policy that no external auditor can remain in post for longer than 20 years and there will be a tendering process every ten years.

There are no contractual obligations restricting the Group's choice of external auditor.

As Audit Committee Chairman, I have had appropriate contact with the external audit partner outside of committee meetings and without management present to discuss matters relevant to the Group.

Whistleblowing

The Audit Committee reviews arrangements by which employees may in confidence raise concerns, which are detailed in the Company's Employee Handbook. He or she is able to contact the company secretary, managing director or the chairman of the Audit Committee.

Board Report on Directors' Remuneration

Stephen Gilmore, Committee Chairman

Annual statement

Dear Shareholder

This will be my last letter to you as chairman of the Remuneration Committee. I have agreed with Rupert Mucklow that I will continue in the role until June 2019, when I will resign as a non-executive director. The intention is that I will then hand over to James Retallack who by then will have served a year as a Remuneration Committee member. This will allow the Company to comply with the Corporate Governance Code requirement that the chairman of the Remuneration Committee should have served on the Committee for a year before being appointed as the chairman. Of course, this plan is ultimately up to the shareholders as I will be subject to re-election at the next AGM.

Executive remuneration in quoted companies continues to be the subject of fierce debate and much (in my opinion valid) criticism. As I write, the High Pay Centre is reporting an 11% median pay increase for FTSE 100 chief executives, with some eye-watering salaries being quoted. Happily Mucklow is not likely to attract the sort of criticism that is being levelled at those companies identified in the High Pay Centre's report, but nevertheless one remains acutely conscious that executive remuneration is under the intense scrutiny of almost every investor. Shareholders gave Mucklow a very high level of support for the Directors' Remuneration Report last year, and I hope that this year, when our Remuneration Policy is up for renewal, that level of support is maintained.

Our ethos and policy has not changed over the past year. However, since I wrote to you last year we have considered what might be done to improve the workings of our performance share plan. As I suggested was likely to happen, the awards made in 2014 under the performance share plan adopted in 2007 (2007 LTIP) failed to vest in 2017, the third year in succession that that had happened, despite the excellent performance of the Company.

It was the intention when the 2007 LTIP and the 2015 PSP (together PSPs) were adopted that good Company performance would be matched by the vesting of awards; this does not happen consistently. Addressing this issue has been part of the focus of the Remuneration Committee's work this year and I deal with this later in this letter, along with some other proposed Remuneration Policy changes.

Ethos

Our aim is to continue delivering that which our shareholders have come to expect, namely consistent and sustainable returns. This cannot be achieved without the recruitment and retention of executives of the right calibre who embrace the culture of the Company and who can foresee and adapt to the changes in the property development and investment industry. Our Remuneration Policy therefore has two main aims: first, to facilitate recruitment and retention of appropriately qualified and motivated executives and secondly to ensure that the performance-related element of executive remuneration is as closely aligned with shareholder interests as we can make it. The objective of the performance related element of the Remuneration Policy is to support the Company's business strategy of medium term enhancement of shareholder value through prudent investment in new properties, investment in the improvement of the Company's existing portfolio and pre-let and (when appropriate) speculative development of new properties.

To achieve those aims, the performance-related element of executive remuneration has in past years been comprised almost wholly of awards under the PSPs, under which participating Executive Directors benefit only if shareholders benefit. The PSPs encourage retention of participating Executive Directors by paying out awards (if at all) at the end of a 5 year period, comprising a 3 year performance period followed by a two year holding period, other than in exceptional circumstances.

The shortcomings in the functioning of the PSPs do not affect the Company's business strategy. However the Remuneration Committee has reviewed these shortcomings with the help of advice from Deloitte, with a view to finding a way to ensure that the performance related element of the Executive Directors' remuneration reflects both the performance of the Company and the interests of its shareholders.

Policy

There are two principal elements to Executive Director remuneration, namely the pay and benefits package and the 2015 PSP, which was adopted to replace the 2007 LTIP following shareholder approval at the 2015 AGM. No further awards will be made under the 2007 LTIP and all awards made under it have now either vested or lapsed.

Pay and benefits

It is important to shareholders that the pay and benefits package is sufficient to attract and retain the high quality Executive Director team that is necessary to deliver the performance required of them by the Company.

Since we last reported to shareholders, the Remuneration Committee has increased the Executive Directors' basic remuneration by 3% with effect from 1 July 2018 in line with the increase in Ordinary dividend and other employees of the Company.

The details of each Executive Director's pay and benefits package is set out at page 44. The Remuneration Committee remains of the view that the Executive Directors' pay and benefits packages reflect market conditions and are appropriate to the Company's FTSE position.

2015 PSP

Last year I said that the Remuneration Committee would look at the apparent misalignment of Company performance with the vesting of awards under the PSPs. The issue that I identified was that when shareholders do not fare so well neither do the participants in the PSPs, but the reverse is not always true; as we have seen in recent years, shareholders may do well but, because of the workings of the PSPs, the Executive Directors may not be rewarded by the vesting of options. Performance-related remuneration should align with shareholder interests in the good years as well as the bad years.

Apart from the obvious issue of Executive Directors who have awards under the PSPs (currently Justin Parker and David Wooldridge) not participating in the good performance of the Company by the vesting of awards in the way that we had expected, there is also a knock-on effect of making the Executive Directors' shareholding expectation of 200% of base salary that much more difficult to achieve. This makes the shareholding expectation unrealistically difficult.

Currently awards made under the PSPs are principally dependent upon a measure of total shareholder return (TSR) compared against a comparator group of companies (those in the FTSE EPRA NAREIT UK Index). Volatility of companies within the comparator group disadvantages a company which performs very steadily over the performance period. A more volatile company recovering from a low position may deliver a greater comparative TSR over the performance period by starting from a lower position than a company with steady performance over the same performance period. As I mentioned last year, it is an anomaly of the PSP that volatility in the comparator group can disadvantage the participating Executive Directors, but it is a lack of volatility in the Mucklow performance which we believe is prized by shareholders. To that extent, the PSPs seem not to align shareholder and Executive Director interests.

The current TSR performance measure is written into our existing Remuneration Policy and cannot be amended without a shareholder vote in favour. It is the object of the Remuneration Committee that, in future, the PSP will operate so as to ensure that participants are rewarded by reference to Mucklow's performance, and that reward for good performance is not undermined by volatility within the TSR comparator group.

Having considered the issue and taken advice on the alternatives from Deloitte, the Remuneration Committee has come to the conclusion that what is required is greater flexibility in the choice available to it in setting appropriate performance conditions for the vesting of options under the 2015 PSP. Accordingly, we propose a change in the Company's Remuneration Policy at the AGM to give the Remuneration Committee greater flexibility in its choice of performance measures under the 2015 PSP. I hope that shareholders will, for the reasons outlined above, appreciate the need for a more flexible approach to this aspect of Executive Director remuneration so as to achieve a better alignment of shareholder and Executive Director interests, and will support the proposed change in the Remuneration Policy.

In addition to the increased flexibility in the choice of 2015 PSP performance measures outlined above, the Remuneration Committee is also proposing a change in the Remuneration Policy as regards the maximum opportunity available for the grant of options under the 2015 PSP. This maximum opportunity is currently set at 75% of base salary. This is significantly out of line with current market practice (the median maximum opportunity for FTSE SmallCap companies is currently 100% of salary). Accordingly, we propose to increase the maximum opportunity available to Executive Directors participating in the 2015 PSP from 75% to 100% of base salary. This will provide the Remuneration Committee with flexibility over the next 3 years to retain, motivate and, if required, recruit Executive Directors to deliver good Company performance. If this change in Remuneration Policy is approved by shareholders, the Remuneration Committee will not implement the increase without shareholder consultation. This amendment will also require an amendment to the 2015 PSP rules which will require shareholder approval which will be sought at the AGM. Awards under the 2015 PSP will not be made to the current Executive Directors at above the 75% level this year.

Board Report on Directors' Remuneration

continued

Cash bonuses

The Remuneration Committee has not altered its view that regular annual cash bonuses do not contribute to the alignment of executive and shareholder interests, being based upon short-term metrics, whereas the Company's revenues are mainly derived from long-term investment and development. However, the Company retains the discretion to award cash bonuses and, in accordance with the statutory requirements applicable to the Remuneration Report there are a number of references to the "Annual Cash Bonus Plan". The maximum benefit table on page 41 records theoretical maximum amounts payable to Executive Directors.

Although the Remuneration Committee approved a modest cash bonus last year, the circumstances were exceptional as outlined in my last letter to shareholders. No cash bonus has been awarded this year. Be that as it may, the Remuneration Committee is proposing a change to the Remuneration Policy to enable bonuses to be clawed back in a two year period following the determination of payment. The circumstances in which this could occur are gross misconduct, material misstatement of accounts, material failure of risk management, material reputational damage to the Company or corporate failure. This is in line with the new Corporate Governance Code; the two year period for clawback is consistent with the holding period of 2 years under the PSP.

Other remuneration policy changes

We also propose the following minor amendments to the Remuneration Policy:

The expectation that Executive Directors will retain at least 25% of shares acquired under the 2015 PSP will not be applied once the Executive Director concerned has achieved his shareholding expectation of 200% of base salary.

An Executive Director who leaves the Company will be permitted to retain awards subject to the holding period under the 2015 PSP unless the Executive Director concerned is dismissed for gross misconduct. The awards will ordinarily vest and become capable of exercise at the end of the 2 year holding period. At present there is a discretion for the Company to forfeit the awards, even for a good leaver, which seems unnecessarily harsh. The awards would still be subject to forfeiture for malus.

Remuneration of the wider workforce

As well as determining the pay and benefits packages of the Executive Directors and approving the granting and vesting of awards under the PSPs, the Remuneration Committee offers guidance to the Executive Directors in relation to pay policy within the Company generally. In this regard, the Remuneration Committee has oversight of the pay policies for the wider workforce.

Furthermore, the Remuneration Committee takes into account the pay policies for the wider workforce when determining salary increases and PSP awards for the Executive Directors.

Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is determined by the Executive Directors and is not a matter dealt with by the Remuneration Committee, although it is covered in the Remuneration Report. During the year Non-Executive Directors' remuneration was increased by 3% in line with the remuneration of other employees of the Company.

The future

The Remuneration Committee will continue to monitor and, when appropriate, contribute to the debate on executive pay.

We welcome an open dialogue with our shareholders and I will be happy to receive comments or address queries regarding the proposed changes to the Company's Remuneration Policy (or any other aspect of the Remuneration Policy) and the Remuneration Report which appears on the following pages.

Valediction

Although I will not step down as a non-executive until June next year, I will not have another opportunity to address the shareholders before I retire so I am taking this opportunity to do so now.

I greatly enjoy my role as a non-executive director at Mucklow. I joined the Board in May 2008, a challenging time in the world generally and in the property world in particular. The steady growth of Mucklow's profits throughout my period on the Board has nothing to do with my efforts but is the result of prudent management by the Executive Directors of an excellent portfolio fashioned during the boom that preceded the collapse and enhanced, developed and expanded thereafter. I congratulate Rupert Mucklow for his leadership through that difficult time and beyond, and the whole executive team for what they have achieved over the last 10 years.

The role of chairman of the Remuneration Committee has been nothing if not educational. Executive remuneration eclipses all other corporate issues and doubtless will continue to do so. Getting the balance right between executives and shareholders is an interesting task, and it is not made any easier by the welter of changes in corporate governance that we have experienced over the last few years and continue to experience. I hope, for the sake of my successor if nothing else, that that particular pendulum will soon stop swinging and that a period of stability will ensue.

I thank Mucklow for the opportunity to serve and I wish the Company and all its stakeholders many more years of steady, reliable and increasing profitability.

Stephen Gilmore
Chairman of the Remuneration Committee
3 September 2018

As required by Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the 2013 regulations"), this Director's Remuneration Report is split into two parts:

– The Directors' Remuneration Policy sets out the policy for the three years beginning on the date of the Company's 2018 AGM, to be held on 13 November 2018.
– The Annual Report on Remuneration sets out the payments made and awards granted to the directors over the period 1 July 2017 to 30 June 2018 and how the Company intends to implement the policy in the period 1 July 2018 to 30 June 2019, which, together with the Remuneration Committee Chairman's Statement, is subject to an advisory shareholder vote.

Sections that have been audited are marked as such. The remaining information within this Report is unaudited.

Directors' Remuneration Policy
Remuneration principles

The Remuneration Committee (the "Committee") follows a number of remuneration principles when developing a remuneration policy for executive directors. These are:

– to provide a competitive remuneration package so as to attract, retain and motivate those individuals and ensure that the Group is managed successfully in the interests of shareholders
– to provide exceptional reward only for exceptional performance
– to align executive directors with shareholders through selecting performance measures that are aligned with the Company's strategic objectives.

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Base salary	To attract, retain and motivate executives of the calibre required to deliver the Company's strategy and successfully manage the interests of shareholders.	Base salary is paid in cash on a monthly basis and is pensionable. It is reviewed on an individual basis taking into account: – Pay and conditions elsewhere in the Group; – Individual performance and experience; – Salary levels in a peer group of similar-sized companies in the property sector in the area in which the Company operates. Any increase typically takes effect from 1 July each year.	While there is no maximum salary, any increase will normally be by reference to and in line with the growth in ordinary dividend declared by the Company, inflation and salary increases in the Group as a whole. Larger salary increases may be awarded to take account of individual circumstances such as where there is a change in role or responsibility of the individual, or size and/or complexity of the Company.	No performance conditions apply.
Retirement benefits	To provide market competitive retirement benefits.	The Company operates a defined contribution personal pension plan. However, where an executive reaches the annual or lifetime allowance they are given the option to receive a cash alternative in lieu.	Contributions of 15% of base salary or a cash alternative in lieu are made.	No performance conditions apply.
Other benefits	To provide market competitive benefits.	The Company provides benefits or a cash alternative in lieu of benefits including: – Company car – Private health care Benefits in kind are not pensionable.	Benefits will be consistent with market practice for similar roles.	No performance conditions apply.
Cash bonus plan	To reward executives for exceptional performance.	Bonuses are only paid in exceptional circumstances. They are at the complete discretion of the Committee. If a bonus were to be paid it would be delivered in cash. Bonus payments will be subject to clawback provisions as detailed below.	All executive directors are eligible to participate in the cash bonus plan. Maximum bonus: 60% of base salary.	If the Committee resolved to pay a bonus in respect of any year, the following factors would be taken into account: – financial performance in the year; – individual performance in the year; and – successful achievement of long-term strategic objectives Threshold payment is nil.

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
2015 Performance Share Plan ("2015 PSP")	To reward executives for delivering the Company's long-term strategy and creating sustainable shareholder returns. The use of shares acts as a retention tool and aligns the interests of executives with shareholders.	Grants of nominal priced options are made annually at the discretion of the Committee. Vesting is dependent on the achievement of performance conditions set by the Committee, normally over at least a three year performance period. Options will usually be subject to a two-year holding period, beginning at the end of the performance period and ending two years thereafter. Options will not typically be capable of exercise until the end of any such holding period. Options will be subject to malus and clawback provisions as detailed below. The Committee may determine that dividend equivalents should be awarded in respect of any dividends paid on shares during a holding period.	Maximum value of options that may be granted: 100% of salary in respect of a financial year. For options to be granted in respect of 2018/19 the maximum will be 75% of salary.	Performance conditions are selected that reflect underlying business performance. Performance conditions and their weighting where there is more than one condition are reviewed annually. Options vest between 20% and 100% of maximum for performance between 'threshold' and 'maximum'. Options will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance.

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Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Share Incentive Plan ("SIP")	All employee share plan to encourage employees to acquire shares in the Company to align with shareholders.	Executive directors are entitled to participate in a HMRC tax efficient all employee SIP. This includes the partnership, matching and free share elements of the SIP.	Participation limits are those set by the UK tax authorities from time to time.	No performance conditions apply.
Shareholding expectation	To align executives' interests with those of shareholders.	The shareholding can be built up over a reasonable time period and includes shares owned outright. This includes options within a holding period and vested but unexercised options (on a net of tax basis), and shares held in the SIP trust. Executive directors are expected to retain at least 25% of the gross number of shares acquired on the exercise of options until the shareholding expectation is met.	Expectation: 200% of base salary.	N/A

Notes to the policy table

a. Annual bonuses are only paid to executive directors in exceptional circumstances and are at the total discretion of the Committee, taking into account financial, individual and longer-term strategic performance.

b. Rupert Mucklow does not participate in the 2015 PSP.

c. Relative TSR is selected as a performance condition for the 2018/19 PSP awards to align the vesting of the awards with shareholders' interests.

d. The Committee retains discretion to vary the performance targets applicable to outstanding PSP awards if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance target, and provided that the revised performance target is fair and reasonable and materially no more or less difficult to satisfy.

e. Other employees are remunerated on a basis similar to executive directors. All employees are entitled to participate in the SIP. All employees are considered for an annual cash bonus but bonuses are only payable in exceptional circumstances and are at the complete discretion of the Committee. Those in senior management roles are eligible to participate in the 2015 PSP at the invitation of the Committee. Awards under the 2015 PSP and bonus levels are both set by reference to grade, and payment is made at the discretion of the Board. Pension and benefits are also provided to all employees, with levels set by reference to grade.

f. Arrangements entered into prior to 27 June 2012 or at a time when the relevant individual was not a director of the Group shall be honoured notwithstanding that they may be inconsistent with the remuneration policy set out above.

Malus and clawback

Annual bonus payments may be subject to repayment on occurrence of certain events for up to two years following the determination of payment.

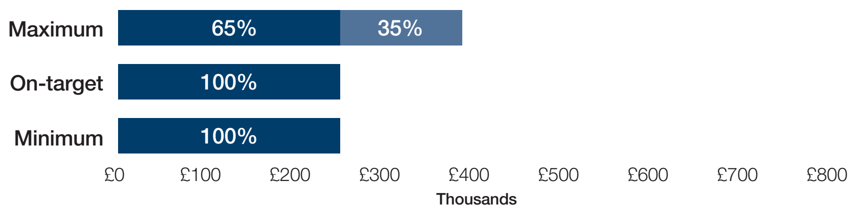
LTIP awards may be amended, reduced, forfeited or subject to repayment on occurrence of certain events from the date of grant to the date of the end of the holding period (or, if there is no holding period, the fifth anniversary of the date of grant).

The events referred to above include gross misconduct, material misstatement of accounts, material failure of risk management, material reputational damage to the Company or corporate failure.

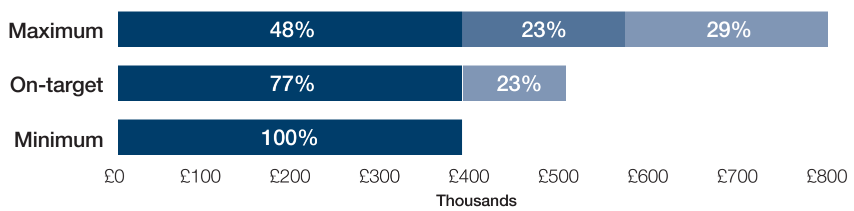
Illustration of application of Remuneration Policy

The charts below provide an indication of the remuneration outcomes for each executive director at (i) maximum, (ii) on-target, and (iii) minimum performance levels.

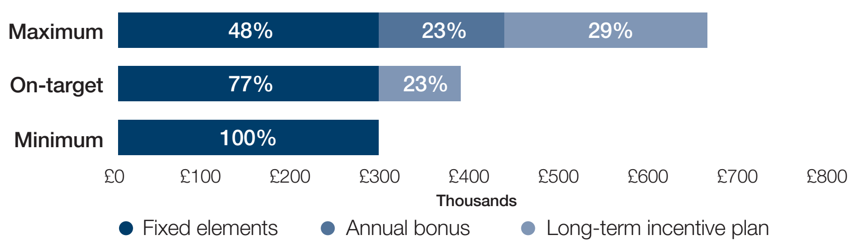
Rupert Mucklow



Justin Parker



David Wooldridge



The scenario charts assume:

- Fixed pay: base pay plus retirement benefits for the year ending 30 June 2019, plus the anticipated value of other benefits (assumed for this purpose to be the same as for the year ended 30 June 2018).
- Short-term incentives: maximum bonus paid at maximum performance (60% of salary) and nil bonus paid for on-target and below on-target performance.
- Long-term incentives: 100% payout for maximum performance (75% of salary) and 50% of maximum payout for on-target performance (37.5% of salary), with no long-term incentives vesting for below on-target performance.

No share price appreciation has been factored into these calculations.

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Board Report on Directors' Remuneration

continued

Non-Executive Directors' Remuneration Policy

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Non-executive directors' fees	To recruit and retain non-executives of the calibre required to provide oversight of the executives and assist the Company in setting and delivering its strategy.	Fees are paid in cash on a monthly basis and are reviewed annually. Non-executive directors do not participate in any element of performance related pay and are not eligible for any pension benefit. No benefits are provided except for the occasional reimbursement of travel and/or hotel expenses in respect of attendance at board meetings.	Fees will be in line with market median levels subject to any overall cap approved by shareholders from time to time and contained in the Company's Articles of Association. The level of any increase will normally be in line with other employees.	No performance conditions apply.

Approach to recruitment remuneration

It is our policy that the recruitment of any new directors will be in line with the policy set out above. In certain circumstances, the Committee may set a new director's salary at below the market median for the position to reflect the fact that the individual is new to the role. Salary increases in the subsequent two to three years may therefore exceed the rate applied to employee salaries more generally.

Any remuneration arrangements will be proposed by the Committee and approved by the Board. The Committee reserves discretion to offer travel or accommodation benefits for a defined period following recruitment if this is considered necessary to secure an appointment.

If the Company has to buy out any previous awards from a prior employment for an incoming director it would only do so on a "fair value" equivalence basis and the vesting period of any new awards would reflect the expected timeframe of the original awards. The overall limit on variable pay on recruitment of a new executive director (excluding buy out awards) is 160% of salary being the maximum annual bonus of 60% of salary and a maximum award of 100% of salary under the 2015 PSP.

If an individual is appointed to the Board from within the Company, any existing awards or arrangements that were entered into before, and otherwise than in contemplation of, the promotion to the Board shall be allowed to subsist notwithstanding that they are not consistent with the approved Directors' Remuneration Policy.

Service contracts

It is the Company's policy that executive directors' service contracts should be on a rolling basis without a specific end date, with a 12 month notice period. Service agreements for the current executive directors are available to view at the Company's registered office.

Director	Contract date	Effective term	Notice period	Pay in lieu of notice
Rupert Mucklow	7 September 2015	Rolling (with no fixed expiry date)	12 months by either party	Termination payments equal to salary and the value of other benefits including pension may be payable for the period remaining under the contract.
Justin Parker	7 September 2015	Rolling (with no fixed expiry date)	12 months by either party	Termination payments equal to salary and the value of other benefits including pension may be payable for the period remaining under the contract.
David Wooldridge	7 September 2015	Rolling (with no fixed expiry date)	12 months by the Company, 6 months by the executive	Termination payments equal to salary and the value of other benefits including pension may be payable for the period remaining under the contract.

Non-executive directors do not have service contracts. The terms and conditions for the non-executive directors are available on request. Non-executive directors are subject to re-election every three years and annually after their third term of office.

Director	Date of appointment or subsequent re-election	Re-election
Stephen Gilmore	14 November 2017	Every year (following the ninth anniversary of his appointment)
Ian Cornock	15 November 2016	Every 3 years
Peter Hartill	15 November 2016	Every 3 years
James Retallack	1 June 2018	Every 3 years

Policy on payment for loss of office for incentives

Annual bonus

The annual bonus is entirely discretionary and a payment will only be made to an executive director who leaves as a good leaver (e.g. retirement, redundancy, death) during the financial year (or before the date for payment of the annual bonus) if, in the view of the Committee, it is warranted by the individual's performance.

2015 PSP

Options under the 2015 PSP will normally lapse on the date of cessation of employment (or if earlier, on the date of giving or receiving notice to cease employment) if the participant leaves the Group before the vesting date, unless he is deemed to be a good leaver in accordance with the rules of the 2015 PSP.

A participant will be deemed to be a good leaver where he leaves due to: ill health, injury, disability, death, redundancy or because he is an employee of a subsidiary that is sold out of the Group. The Committee may also treat a participant as a good leaver at its discretion, provided that a participant who is summarily dismissed cannot be considered to be a good leaver.

In the event of a participant's death, his award will vest on the date of death. For all other good leavers, the default position will be that their award will continue on the same terms and vest on the vesting date. Where a holding period applies, the award will be released at the end of the holding period.

However, the Committee has the discretion to allow an award to vest on the date the participant leaves, or where a holding period applies, the award may vest at the end of the performance period (i.e. it will vest following the end of the applicable performance period).

Non-executive directors are not eligible to receive any compensation on termination and are subject to a 3 month notice period.

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Board Report on Directors' Remuneration

continued

Statement of consideration of employment conditions elsewhere in the Company

When setting the remuneration policy, the Committee is provided with details of the remuneration arrangements of the wider employee population and takes into account any increases available to the wider employee population and the increase in dividend when determining that of directors.

Statement of consideration of shareholder views

Any proposed significant change in remuneration policy would be considered with major shareholders before being formally put to shareholders.

Annual report on remuneration

Single total figure of remuneration for each director (audited)

Directors' emoluments	Basic salary/fees £000	Benefits in kind[i] £000	Bonus[ii] £000	LTIP[iii] £000	Pension[iv] £000	Total
2018						
Executive						
Rupert Mucklow	**227**	**24**	**–**	**–**	**–**	**251**
Justin Parker	**304**	**44**	**–**	**–**	**40**	**388**
David Wooldridge	**237**	**24**	**–**	**–**	**32**	**293**
Non-executive						
Ian Cornock	**38**	**–**	**–**	**–**	**–**	**38**
Stephen Gilmore	**38**	**–**	**–**	**–**	**–**	**38**
Peter Hartill	**38**	**–**	**–**	**–**	**–**	**38**
James Retallack [v]	**3**	**–**	**–**	**–**	**–**	**3**
TOTAL	**885**	**92**	**–**	**–**	**72**	**1,049**
2017						
Executive						
Rupert Mucklow	220	22	40	–	–	282
Justin Parker	295	41	40	–	39	415
David Wooldridge	230	22	40	–	32	324
Non-executive						
Ian Cornock	37	–	–	–	–	37
Stephen Gilmore	37	–	–	–	–	37
Peter Hartill	37	–	–	–	–	37
TOTAL	856	85	120	–	71	1,132

i. Benefits in kind principally relate to the provision of a Company car and private health care together with free shares and matching shares under the all employee Share Incentive Plan.

ii. As detailed by the Remuneration Committee Chairman in the previous annual report, a discretionary bonus was paid to the Executive Directors to take into account the long-term performance of the Company.

iii. The LTIP awards granted in October 2013 and October 2014 did not vest.

iv. Justin Parker and David Wooldridge are members of a defined contribution pension scheme. Justin Parker's pension benefits are made up of a salary supplement of £40,073 (2017: £38,905). David Wooldridge's pension benefits are made up of pension contributions of £10,000 (2017: £10,000) plus a salary supplement of £22,438 (2017: £21,529).

v. Appointed 1 June 2018.

2012, 2013 and 2014 LTIP vesting (audited)

Details of Options vesting in the year are included below. The performance condition applied to the 2012, 2013 and 2014 LTIP vesting is as set out below.

	Justin Parker Option Exercise Year			David Wooldridge Option Exercise Year		
	2016	2017	2018	2016	2017	2018
Number of shares over which option may be exercised	57,093	44,427	**49,097**	36,663	28,529	**31,528**
Total shareholder return in performance period	53.80%	18.56%	**26.91%**	53.80%	18.56%	**26.91%**
Position in comparator group in performance period	12th of 14	15th of 17	**18th of 30**	12th of 14	15th of 17	**18th of 30**
Vesting level as a percentage of maximum	0%	0%	**0%**	0%	0%	**0%**
Number of shares over which option can be exercised	–	–	**–**	–	–	**–**
Share price (in pence) when option exercised	–	–	**–**	–	–	**–**
Value of shares when option vests and is exercised	–	–	**–**	–	–	**–**
Subscription price (25p/share)	–	–	**–**	–	–	**–**
Value of Option to executive	**–**	**–**	**–**	**–**	**–**	**–**
Average value of Options to executive over the three year period			**Nil**			**Nil**

Scheme interests awarded during the financial year (audited)

LTIP

Details of the Options awarded in the year to directors who served during the year are as follows:

Name of Director	Type of award	Basis of award	Number of shares awarded	Face value of award	Amount receivable for minimum performance	End of performance period
Justin Parker	Nominal cost Option	Annual award with performance conditions. Based on a percentage of salary (75%)	45,740	£228,013	20% of shares will vest	29/10/2020
David Wooldridge	Nominal cost Option	Annual award with performance conditions. Based on a percentage of salary (75%)	35,642	£177,675	20% of shares will vest	29/10/2020

Face value is based on a share price of 498.5p at the close of business on the day prior to the date of grant (30 October 2017). The exercise price of the Options is 25p per share, being the nominal cost of each share.

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Board Report on Directors' Remuneration

continued

Performance conditions

Vesting is subject to total shareholder return (TSR) vs. constituents of the FTSE EPRA NAREIT UK index.

Awards will not normally vest and be capable of exercise prior to the fifth anniversary of the date of grant, following the end of the three year performance period and the two year holding period.

Vesting schedule:

Performance against index	Below Median	Median	Upper quartile
Portion of award to vest	Award to lapse	20% vests	100% vests

Pro-rata in between median and upper quartile.

Awards will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance. Participants will receive dividend equivalents in respect of vested shares (net of tax) for the two year holding period for these awards.

Share Incentive Plan (audited)

The Group currently operates an HM Revenue & Customs tax-advantaged all employee Share Incentive Plan ("SIP"). During the year each executive director received 1,478 partnership, matching and free shares, with a value of £7,538 at a cost to each executive director of £1,800 (excluding tax relief). Non-executive directors are not eligible to participate in the SIP.

Payments to past directors (audited)

There were no payments to past directors in the year ended 30 June 2018 other than detailed below.

Payments for loss of office (audited)

There were no payments for loss of office in the year ended 30 June 2018.

Statement of directors' shareholding and share interests (audited)

Particulars of the directors' and their connected persons' shareholdings in the ordinary share capital of the Company are shown below. There were no movements in any of the directors' and their connected persons' shareholdings between 1 July 2018 and 3 September 2018.

None of the directors and their connected persons had any beneficial interest in the Company's preference shares at either 30 June 2018 or 3 September 2018.

		30 June 2018			
Ordinary shares	**Shareholding expectation**	**Shares held outright**	**Shares held outright as % of salary**	**Unvested Options with performance conditions**	**Total share interests**
Rupert Mucklow	**–**	**733,640**	**1,757%**		**733,640**
Justin Parker	**200% of basic salary**	**82,980**	**148%**	**131,710**	**214,690**
David Wooldridge	**200% of basic salary**	**81,127**	**186%**	**96,827**	**177,954**
Stephen Gilmore	**–**	**–**			**–**
Ian Cornock	**–**	**3,938**			**3,938**
Peter Hartill	**–**	**–**			**–**
James Retallack	**–**	**–**			**–**
TOTAL		**901,685**		**228,537**	**1,130,222**

The share price at the year-end was 559p.

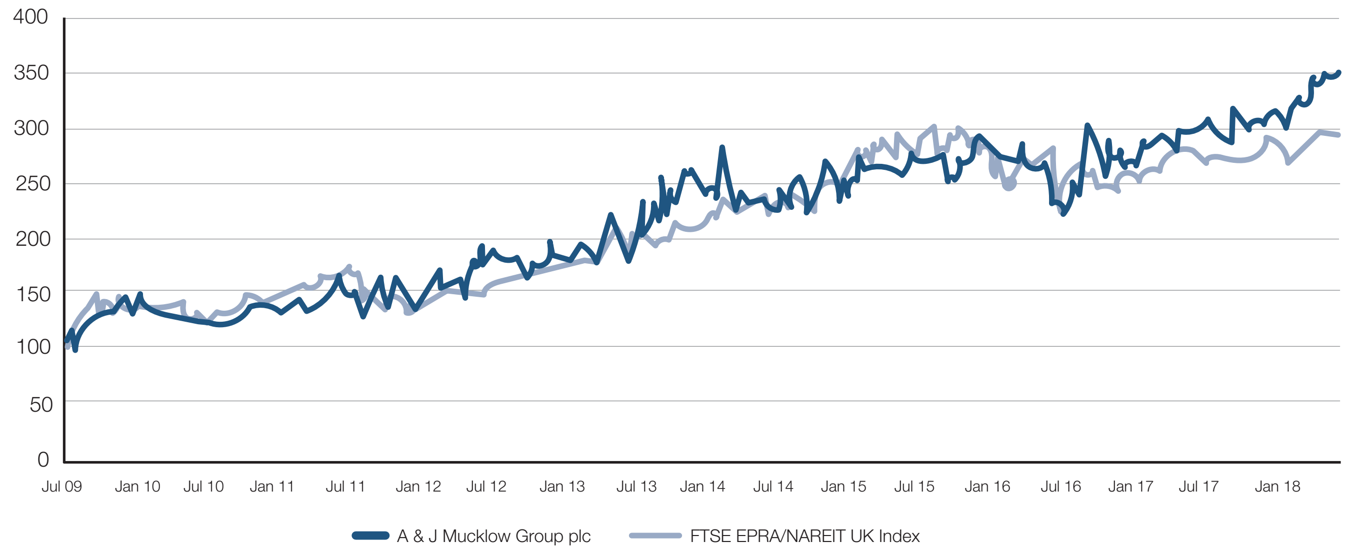
No options were exercised in the year under review and there were no vested but unexercised share Options. The outstanding unvested Options are made up of the following grants. All options have a 25p exercise price.

Grant Date	Share price at grant	Justin Parker	David Wooldridge
December 2015	507.5p	42,350	27,195
October 2016	507.5p	43,620	33,990
October 2017	498.5p	45,740	35,642

Movement in directors' ordinary shares

Director	Shares held outright 30 June 17	Retained from Option exercise	Acquired under SIP	Purchased	Sold	Shares held outright 30 June 18
Rupert Mucklow	732,162	–	1,478	–	–	**733,640**
Justin Parker	81,630	–	1,478	–	(128)	**82,980**
David Wooldridge	79,649	–	1,478	–	–	**81,127**
Stephen Gilmore	–	–	–	–	–	**–**
Ian Cornock	–	–	–	3,938	–	**3,938**
Peter Hartill	–	–	–	–	–	**–**
James Retallack	–	–	–	–	–	**–**

Performance graph and table
Total shareholder return



Presented above is a graph showing the total return of the Company's shares compared to the FTSE EPRA NAREIT UK price index, considered to be the most relevant index for the Company because it is the comparator group for the LTIP awards. Arden Partners plc prepared the graph based on underlying data provided by Bloomberg.

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Board Report on Directors' Remuneration

continued

Presented below is a table setting out details in respect of the remuneration paid to the director undertaking the role of managing director in the preceding nine years.

Year ended 30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Remuneration (£000)	271	430	486	461	596	485	368	415	**388**
Bonus as a percentage of maximum	0%	0%	0%	0%	0%	0%	0%	23%	**0%**
LTIP as a percentage of maximum	0%	78%	89%	73%	83%	43%	0%	0%	**0%**

Percentage change in remuneration of director undertaking the role of managing director

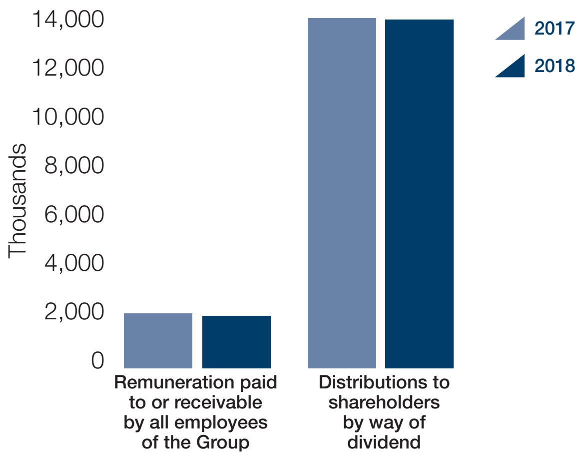
Presented below is a table setting out a comparison of the change in amounts paid to the director undertaking the role of managing director and the change in amounts paid to the wider employee population between 2017 and 2018. For the purpose of this table, the employee group includes all employees of the group, excluding a minority of employees whose remuneration package for 2018 is not representative of the wider workforce.

	Managing Director Percentage change	Employee group Percentage change
Salary	3%	3%
Taxable benefits	5%	9%
Annual bonus	-100%	0%

No annual bonus was paid to the Managaing Director in 2018 resulting in a 100% decrease.

Relative importance of spend on pay

Presented below is a chart detailing the absolute and percentage change in spend of remuneration paid to or receivable by all employees of the Group and the distributions to shareholders by way of dividend.



Remuneration paid to or receivable by all employees of the Group decreased by 8.0% year on year whilst distributions to shareholders by way of dividend increased by 3.0%.

Consideration by the Remuneration Committee of matters relating to directors' remuneration

The Remuneration Committee currently consists of four non-executive directors: Stephen Gilmore as Chairman, Ian Cornock, Peter Hartill and James Retallack. The Committee is responsible for the consideration and approval of the terms of service, remuneration, pension arrangements and other benefits of the Group's executive directors and the Group Chairman. In addition, the Committee has oversight of the remuneration arrangements of the wider employee population and takes into account any increases available to the wider employee population when determining that of directors. The Committee does not directly decide the remuneration of the wider employee population.

The Committee consults the Group Chairman and Managing Director on its proposals and has access to professional advice from outside and inside the Group if so required.

Deloitte LLP provided advice to the Remuneration Committee during the year in relation to Directors' Remuneration. Deloitte LLP's fees for this advice was £5,095 plus VAT, charged on a time and materials basis. Deloitte LLP also provided advice to the Company during the year in relation to corporate and employment tax, Corporate Criminal Offence and accounting of share based payments.

Deloitte LLP is a founder member of the Remuneration Committee Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. The Remuneration Committee is satisfied that all advice received was objective and independent.

Statement of voting at general meeting

Presented below is a table setting out details of the vote on the Remuneration Report as cast at the 2017 AGM. The remuneration policy was voted on at the 2015 AGM.

		For	Against	Abstain
Remuneration Report	% of votes	99.97%	0.03%	–
	Number of votes	45,155,845	13,507	22,081
Remuneration Policy	% of votes	98.40%	1.60%	–
	Number of votes	43,751,765	711,407	33,720

Statement of implementation of Remuneration Policy in the following financial year (2018/19)

Details of the Remuneration Policy which will be implemented in 2018/19 (subject to shareholder approval of the Remuneration Policy at the 2018 AGM) is set out below.

Base salaries and fees

The executive Directors' salaries and non-executive Directors' fees were reviewed by the Committee in June 2018 and they were increased by 3% from 1 July 2018, in line with all other employees in the Group.

Executive Director	Base salary 1 July 2018	Base salary 1 July 2017	Change
Rupert Mucklow	**£233,398**	£226,600	+3%
Justin Parker	**£313,138**	£304,018	+3%
David Wooldridge	**£244,007**	£236,900	+3%

Non-Executive Director	Fees 1 July 2018	Fees 1 July 2017	Change
Stephen Gilmore	**£39,393**	£38,245	+3%
Ian Cornock	**£39,393**	£38,245	+3%
Peter Hartill	**£39,393**	£38,245	+3%
James Retallack	**£39,393**	£38,245*	+3%

* From date of appointment

LTIP

Awards will be granted in the form of nominal priced options at the level of 75% of salary and will be subject to a relative TSR performance condition as follows:

Performance against constituents of the FTSE EPRA NAREIT UK index	Below median	Median	Upper quartile
Portion of award to vest	Award to lapse	20% vests	100% vests

Awards will be subject to a two year holding period following the end of the performance period.

In all other respects, the Remuneration Policy will be operated in accordance with the Policy set out in this Report.

Directors' Report

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 30 June 2018. The Corporate Governance Statement set out on pages 26 to 29 forms part of this report.

Pages 1 to 22 contain further details of the business, including an analysis of the Company's business development and performance during the year, key performance indicators, the position of the Company's business as at 30 June 2018, principal risks and uncertainties and main trends, greenhouse gas emissions and factors likely to affect the future performance, position and development of the Company's business.

Principal activities

A & J Mucklow Group plc acts as a holding company for all of the Group's subsidiary companies. During the financial year ending on 30 June 2018 the principal activity of the Group is selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

Disclosure of information under Listing Rules 9.8.4

No allotment of shares for cash pursuant to the Group's Long Term Incentive Plan took place in the year under review.

Results

The profit for the year and the dividends paid and proposed are set out in detail in the Group statement of comprehensive income and notes. The net profit before taxation for the year was £69.5m and the taxation charge was £nil.

Ordinary dividends

On 16 April 2018, the first quarterly dividend for the year ended 30 June 2018 of 5.09p per share was paid. A second quarterly dividend of 5.09p per share was paid on 16 July 2018.

Dividends totalling 12.60p per share (2017: 12.24p) are being declared in respect of the 30 June 2018 financial year, making the total in respect of the year ended 30 June 2018 22.78p per share (2017: 22.12p), an increase of 3% over the prior year. The dividends consist of a third quarterly dividend of 5.30p and a final dividend of 7.30p. The proposed third quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The third quarterly dividend of 5.30p will be paid on 15 October 2018 to Shareholders on the register at the close of business on 14 September 2018.

The final dividend of 7.30p will, if approved by Shareholders at the AGM, be paid on 15 January 2019 to Shareholders on the register at the close of business on 14 December 2018.

Future prospects

The future prospects are commented on in the Chairman's Statement on page 3.

Directors

The directors listed below constituted the Board during the year, and up to the date of signing the annual report.

Rupert Mucklow
Justin Parker
David Wooldridge
Stephen Gilmore
Ian Cornock
Peter Hartill
James Retallack (from 1 June 2018)

The three executive directors, Rupert Mucklow, Justin Parker and David Wooldridge, have one-year rolling service contracts with the Group. Non-executive directors do not have service contracts.

The Company's Articles of Association require that all directors submit themselves for re-election every three years, or at the first Annual General Meeting following their appointment. A non-executive director serving for a term in excess of nine years is subject to annual re-election.

Justin Parker, Stephen Gilmore and James Retallack offer themselves for re-election at the AGM.

The interests of the directors in the ordinary share capital of A & J Mucklow Group plc are set out on page 46.

Capital structure

Details of the authorised and issued share capital are shown in note 21. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The preference shares carry 7% interest but do not carry voting rights. The percentage of the issued nominal value of the ordinary shares is 96% (2017: 96%) of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Change of control

Borrowings

The Group has borrowing facilities provided by various parties which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Employee share plans

The Long-Term Incentive Plan includes change of control provisions which may allow the vesting or exchange of awards, in accordance with the plan rules.

Directors' and officers' liability insurance

During the year the Company purchased and maintained liability insurance for its directors and officers as permitted by Section 234 of the Companies Act 2006.

Substantial shareholdings

The families of Albert J Mucklow (Honorary President, previous Chairman and father of the Chairman) and Margaret A Hickman (aunt of the Chairman) (the "Concert Party") collectively have an interest in 11,117,599 (2017: 12,204,526) ordinary shares, representing 17.56% (2017: 19.28%) of the issued ordinary share capital.

In addition to the shares held by the Mucklow Concert Party, as at 6 August 2018 the Company has been notified of the following voting rights over the issued share capital of the Company.

Substantial shareholdings	Number	%
Tellin (Bermuda) Ltd	3,831,530	6.05
Anadius Investments Limited	3,671,149	5.80
Miton Group plc†	3,174,857	5.02
Canaccord Genuity Inc†	3,061,171	4.84
Wesleyan Assurance Society†	3,020,000	4.77
NFU Mutual Insurance Society†	2,539,953	4.01

All of the above holdings are directly held, unless marked with a †.

Going concern

The Group's financing and cash flow position is discussed in the Finance Review on page 13 and in the accounting policies on page 62 of this annual report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Close company provisions

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Financial instruments

Details of the exposure of the Company and its subsidiaries (included in the consolidation) to market risk, credit risk, or liquidity and cash flow risk from financial instruments can be found in note 23 to the financial statements.

Auditor

A resolution to reappoint KPMG LLP as the Company's Auditor will be proposed at the forthcoming Annual General Meeting.

Disclosure of information to the auditor

Each of the directors at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's Auditor is unaware;

   and

2. the director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Events since 30 June 2018

There are no material events since 30 June 2018 to report.

Annual General Meeting

The AGM of A & J Mucklow Group plc will be held at The Birmingham Botanical Gardens & Glasshouses, Westbourne Road, Edgbaston, Birmingham, B15 3TR on Tuesday 13 November 2018 at 11.30am.

By order of the Board

David Wooldridge
Secretary
60 Whitehall Road, Halesowen, West Midlands, B63 3JS
3 September 2018

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Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By the order of the Board

David Wooldridge
Secretary
60 Whitehall Road, Halesowen, West Midlands, B63 3JS
3 September 2018

KPMG

Independent auditor's report

to the members of A&J Mucklow Group plc

1. Our opinion is unmodified

We have audited the financial statements of A&J Mucklow Group plc ("the Company") for the year ended 30 June 2018 which comprise the Group Statement of Comprehensive Income, Group and Company Statements of Changes in Equity, Group and Company Balance Sheets, Group and Company Cash Flow Statements, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 20 September 2015. The period of total uninterrupted engagement is for the three financial years ended 30 June 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£4.0m (2017: £3.0m) 0.9% (2017: 0.8%) of Group total assets	
Coverage	100% (2017: 100%) of Group total assets	
Risks of material misstatement		**vs 2017**
Recurring risks	Valuation of Investment and Development property held at fair value	◄►
Parent Company key audit matter	Recoverability of parent company investments in subsidiaries	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of Investment and Development Properties held at fair value (£427.4 million; 2017: £386.8 million) *Refer to page 32 (Audit Committee Report), page 63 (accounting policy) and pages 72-74 (financial disclosures).*	**Subjective valuation** Valuation of investment and development property held at fair value is the key area of judgement in the financial statements. It is considered a risk due to its magnitude and the subjective nature of the valuations, particularly the estimates made in relation to market comparable yield rates and estimated rental value (ERV).	Our procedures, (assisted by our own property valuation specialist for procedures 1, 2, 3 and 4) included: **1. Understanding of valuation approach:** Meeting with the Group's external valuer to understand the assumptions and methodologies used in valuing the investment and development properties and the market evidence used by the external valuer to support these assumptions. We also obtained an understanding of directors' involvement in the valuation process to assess whether appropriate oversight has occurred. **2. Assessing valuer's credentials:** Critically assessed the independence, professional qualifications, competence and experience of the external valuers used by the group. **3. Methodology choice:** Critically assessed the results of the valuer's report by checking their valuations are in accordance with the RICS Valuation Professional Standards "the Red Book" and relevant accounting standards. **4. Benchmarking assumptions:** Challenged the key assumptions upon which the valuations were based for a sample of properties including those relating to ERV and yield rates by making a comparison to our own assumption ranges derived from market data. **5. Tests of detail:** Agreed observable inputs used in the valuations, such as rental income, lease incentives, break clauses and lease lengths back to source data for a sample of properties. **6. Disclosure assessment:** Critically assessed the adequacy of the Group's disclosures in relation to the judgement in relation to valuing properties. **Our results** We found the valuation for Investment and Development Properties to be acceptable (2017: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Recoverability of parent company investments in subsidiaries (£186.1 million; 2017: £186.1 million) *Refer to page 65 (accounting policy) and page 83 (financial disclosures).*	**Low risk/high value** The carrying amount of the parent company's investment represents 89.2% (2017: 87.1%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the parent Company financial statements, this is considered to be the area that has had the greatest effect on our overall parent Company audit.	Our procedures included: 1. **Test of detail:** Compared the net asset value and forecast income of the subsidiaries to the investment in subsidiary undertakings and assessed whether there is sufficient headroom for each of the investments. **Our results** We found the resulting estimate of the recoverable amount of investment in subsidiaries to be acceptable (2017: acceptable).

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £4.0 million (2017: £3.0 million), representing 0.9% to Group total assets of £445.1 million (2017: 0.8% of Group total assets of £396.6 million).

As in the previous financial period, we have applied a lower materiality set at £0.9 million to the specific group income statement items, namely gross rental income, service charge income and property outgoings, which may be of specific interest to users regarding the Group Income Statement and that could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group. This was based on net property income as disclosed in the Group Statement of Comprehensive Income. This was introduced in the previous year to be in line with other entities in the Company's peer group.

Materiality for the Parent Company financial statements as a whole was set at £1.9 million (2017: £1.7 million), determined with reference to Company total assets of which it represents 0.9% (2017: 0.8%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (2017: £0.15 million), or £0.045 million where they relate to the specific items listed above, in addition to other identified misstatements that warranted reporting on qualitative grounds.

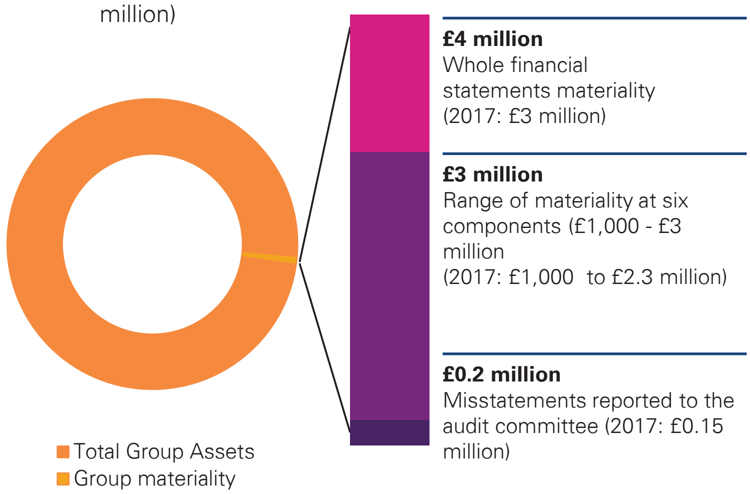
Of the group's 6 (2017: 6) reporting components, we subjected 6 (2017: 6) to full scope audits for group purposes.

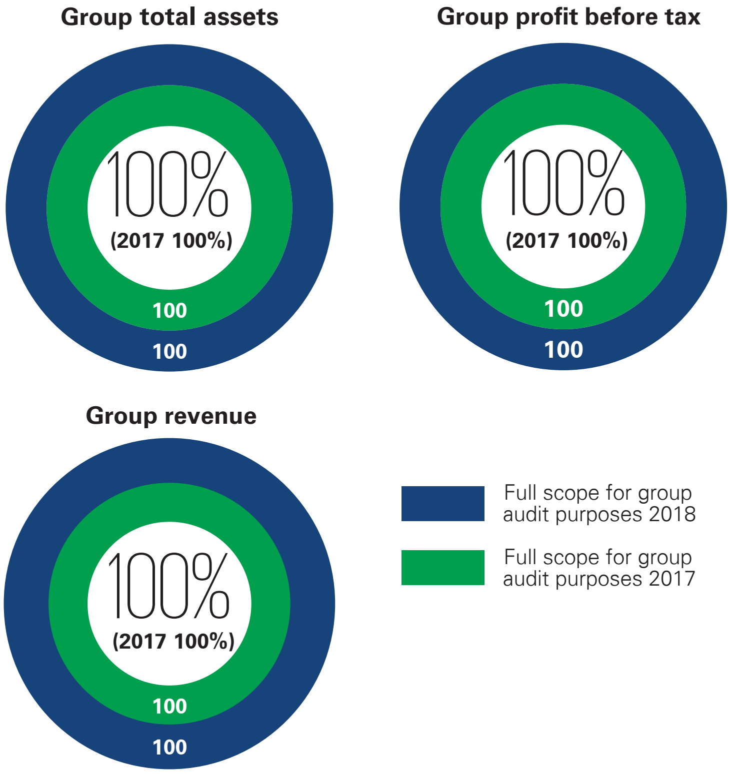
The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team set component materialities, which ranged from £1,000 to £3,000,000, having regard to the mix of size and risk profile of the Group across the components. The work on all components was performed by the Group team.

Group total assets
£445.1 million (2017: £396.6 million)

Materiality
£4 million (2017: £3 million)





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4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 51 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 18 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 52, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
3 September 2018

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Group Statement of Comprehensive Income

for the year ended 30 June 2018

	Notes	2018 £m	2017 £m
Gross rental income	2	**24.1**	23.7
Service charge income	2	**1.0**	1.0
Total revenue	2	**25.1**	24.7
Property outgoings	3	**(2.6)**	(2.0)
Net property income		**22.5**	22.7
Administration expenses		**(3.5)**	(3.4)
Operating profit before net gains on investment and development properties		**19.0**	19.3
Profit on disposal of investment and development properties		**7.6**	1.9
Revaluation of investment and development properties	11	**49.7**	13.0
Operating profit		**76.3**	34.2
Total finance income	7	**–**	–
Finance costs		**(3.2)**	(3.4)
Early repayment costs		**(3.6)**	(1.2)
Total finance costs	7	**(6.8)**	(4.6)
Net finance costs	7	**(6.8)**	(4.6)
Profit before tax	5	**69.5**	29.6
Taxation	8	**–**	–
Profit for the financial year		**69.5**	29.6
Other comprehensive income:			
Items that will not be reclassified subsequently to profit and loss:			
Revaluation of owner-occupied property		**0.2**	–
Total comprehensive income for the year attributable to the owners of the parent		**69.7**	29.6
All operations are continuing.			
Basic and diluted earnings per share	10	**109.74p**	46.63p

Group and Company Statements of Changes in Equity

for the year ended 30 June 2018

Group	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2016	15.8	13.0	11.2	0.3	0.3	240.0	280.6
Profit for the financial year	–	–	–	–	–	29.6	29.6
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	29.6	29.6
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.7)	(13.7)
Balance at 30 June 2017	**15.8**	**13.0**	**11.2**	**0.3**	**0.3**	**256.1**	**296.7**
Profit for the financial year	–	–	–	–	–	69.5	69.5
Other comprehensive income	–	–	–	0.2	–	–	0.2
Total comprehensive income	–	–	–	0.2	–	69.5	69.7
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(14.2)	(14.2)
Balance at 30 June 2018	**15.8**	**13.0**	**11.2**	**0.5**	**0.3**	**311.6**	**352.4**

Company	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2016	15.8	13.0	11.2	–	0.3	143.2	183.5
Profit for the financial year	–	–	–	–	–	13.0	13.0
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.7)	(13.7)
Balance at 30 June 2017	**15.8**	**13.0**	**11.2**	**–**	**0.3**	**142.7**	**183.0**
Profit for the financial year	–	–	–	–	–	13.5	13.5
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(14.2)	(14.2)
Balance at 30 June 2018	**15.8**	**13.0**	**11.2**	**–**	**0.3**	**142.2**	**182.5**

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Group and Company Balance Sheets

at 30 June 2018

		Group		Company	
	Notes	2018 £m	2017 £m	2018 £m	2017 £m
Non-current assets					
Investment and development properties	11	**427.4**	386.8	**–**	–
Property, plant and equipment	12	**1.5**	1.3	**–**	–
Investments		**–**	–	**186.1**	186.1
Trade and other receivables	13	**0.6**	0.6	**0.4**	0.5
		429.5	388.7	**186.5**	186.6
Current assets					
Held for sale asset	11	**5.0**	–	**–**	–
Trading properties	14	**0.5**	0.5	**–**	–
Trade and other receivables	15	**1.3**	1.6	**22.1**	27.1
Cash and cash equivalents	16	**8.8**	5.8	**–**	–
		15.6	7.9	**22.1**	27.1
Total assets		**445.1**	396.6	**208.6**	213.7
Current liabilities					
Trade and other payables	17	**(12.5)**	(15.2)	**(5.2)**	(5.3)
Current tax liabilities		**(0.4)**	(0.4)	**(0.4)**	(0.4)
		(12.9)	(15.6)	**(5.6)**	(5.7)
Non-current liabilities					
Borrowings	19	**(79.8)**	(84.3)	**(20.5)**	(25.0)
Total liabilities		**(92.7)**	(99.9)	**(26.1)**	(30.7)
Net assets		**352.4**	296.7	**182.5**	183.0
Equity					
Called up ordinary share capital	21	**15.8**	15.8	**15.8**	15.8
Share premium	22	**13.0**	13.0	**13.0**	13.0
Revaluation reserve	22	**0.5**	0.3	**–**	–
Share-based payment reserve		**0.3**	0.3	**0.3**	0.3
Redemption reserve	22	**11.2**	11.2	**11.2**	11.2
Retained earnings		**311.6**	256.1	**142.2**	142.7
Total equity		**352.4**	296.7	**182.5**	183.0
Net asset value per share					
– Basic and diluted	10	**557p**	469p		
– EPRA	10	**559p**	471p		

Rupert Mucklow

David Wooldridge

The financial statements of A & J Mucklow Group plc, registered number 717658, were approved by the Board and authorised for issue on 3 September 2018.

The notes attached are an integral part of the financial statements.

Group and Company Cash Flow Statements

for the year ended 30 June 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flows from operating activities					
Operating profit		**76.3**	34.2	**13.8**	13.3
Adjustments for non-cash items					
– Unrealised net revaluation gains on investment and development properties		**(49.7)**	(13.0)	**–**	–
– Profit on disposal of investment properties		**(7.6)**	(1.9)	**–**	–
– Depreciation		**0.1**	0.1	**–**	–
– Share-based payments		**0.2**	0.2	**0.2**	0.2
– Amortisation of lease incentives		**(1.0)**	(0.4)	**–**	–
Other movements arising from operations					
– Increase in trading properties		**–**	–	**–**	–
– Decrease in receivables		**0.3**	0.3	**21.4**	29.8
– (Decrease)/increase in payables		**(1.8)**	1.8	**(16.3)**	(12.3)
Net cash generated from operations		**16.8**	21.3	**19.1**	31.0
Interest paid		**(6.7)**	(4.2)	**(0.5)**	(0.8)
Net cash inflow from operating activities		**10.1**	17.1	**18.6**	30.2
Cash flows from investing activities					
Acquisition of and additions to investment and development properties		**(6.4)**	(11.4)	**–**	–
Lease incentive – capital contribution		**(1.7)**	–	**–**	–
Proceeds on disposal of investment and development properties		**19.7**	4.0	**–**	–
Net expenditure on property, plant and equipment		**–**	–	**–**	–
Net cash inflow/(outflow) from investing activities		**11.6**	(7.4)	**–**	–
Cash flows from financing activities					
Repayment of existing borrowings		**(20.0)**	(20.0)	**–**	–
New borrowings (net of costs)		**19.8**	39.4	**–**	–
Decrease in borrowings		**(4.4)**	(13.7)	**(4.5)**	(13.5)
Equity dividends paid		**(14.1)**	(16.7)	**(14.1)**	(16.7)
Net cash outflow from financing activities		**(18.7)**	(11.0)	**(18.6)**	(30.2)
Net increase/(decrease) in cash and cash equivalents		**3.0**	(1.3)	**–**	–
Cash and cash equivalents at beginning of year		**5.8**	7.1	**–**	–
Cash and cash equivalents at end of year	16	**8.8**	5.8	**–**	–

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Notes to the Financial Statements

1. Accounting policies

Basis of preparation of financial information

A & J Mucklow Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 25.

The Group and Parent financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulation.

The financial statements are prepared under the historical cost convention, except for the revaluation of investment and development properties and owner-occupied properties and certain financial assets, with consistent accounting policies to the prior year.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Controls is when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Unrealised gains and losses on intra-Group transactions and intra-Group balances are eliminated from the consolidated results.

Going concern

As at 30 June 2018 the Group had £45.0m of undrawn banking facilities and had drawn down £nil from its HSBC £44m 2021 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this document, was undrawn. Given these facilities, the Group's low net debt to equity gearing level of 20% and £112.2m of unencumbered properties, significant capacity exists to raise additional finance or to provide additional security for existing facilities, should property values fall. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of estimates and assumptions that affect reported amounts of assets and liabilities during the reporting period. These estimates and assumptions are based on management's best knowledge of the amount, event or actions. Actual results may differ from those amounts.

For the estimates used in the valuation of properties, which has a significant effect on the amounts recognised in the financial statements, management has used the valuation performed by its independent valuers as the fair value of its investment, development, owner-occupied and trading properties. The valuation is based upon assumptions, particularly the estimates made in relation to market comparable yield rates and estimated rental value (ERV) . The valuation also uses market evidence of transaction prices for similar properties.

Standards endorsed but not yet effective

The following Adopted IFRSs have been endorsed but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- Amendments to IFRS 2 Share Based Payments (effective 1 January 2018)
- Annual Improvements to IFRSs – 2014-2016 Cycle (effective 1 January 2018)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- Amendments to IAS 40 Investment Property (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

IFRS 9 Financial Instruments, effective from 1 July 2018, covers the classification, measurement and derecognition of financial assets and liabilities and introduces an impairment model for financial assets. The Directors have identified trade receivables as the significant financial asset that will be impacted by IFRS 9 and have carried out an impact assessment based on actual losses incurred. Based on this assessment, the impact on the Group will not be material.

IFRS 15 Revenue Recognition, effective from 1 July 2018, governs the recognition of revenue. It will be applicable to service charge and other property income (but not rental income arising from leases with tenants), trading property disposals and investment property disposals. There will not be a material change in the amounts and timing of revenue recognised following the adoption of the standard.

IFRS 16 Leases, effective from 1 July 2019, will result in almost all operating leases being brought on balance sheet. The accounting for lessors will not significantly change as we will continue to account for leases under IAS 40. As a result of the adoption of the new standard, these changes will not result in a material change to the Group's reported results.

Significant accounting policies

Revenue recognition

Rental income

Gross rental income represents rents receivable for the year. Rent increases arising from rent reviews due during the year are taken into account only to the extent that such reviews have been agreed with tenants at the accounting date.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Lease incentives are amortised on a straight-line basis over the lease term.

Property operating expenses are expensed as incurred.

Revenue and profits on sale of investment, development and trading properties

Revenue and profits on sale of investment, development and trading properties are recognised on the completion of contracts.

The amount of profit recognised is the difference between sale proceeds and the carrying amount.

Dividends and interest income

Dividend income from investments in subsidiaries is recognised when shareholders' rights to receive payment have been established.

Interest income is recognised on an accruals basis when it falls due.

Costs associated with properties

Costs associated with properties under the course of development include total development outgoings, including interest, attributable to properties held for development is added to the cost of such properties. A property is regarded as being in the course of development until practical completion.

Interest associated with direct expenditure on investment properties which are undergoing development or major refurbishment and development properties is capitalised. Direct expenditure includes the purchase cost of a site or property for development properties, but the original book cost of investment property under development or refurbishment is not included in the calculation of interest. Interest is capitalised gross from the start of the development work until the date of practical completion, but is suspended if there are prolonged periods when development activity is interrupted. The rate used is the rate on specific associated borrowings or, for that part of the development costs financed out of general funds, the average rate.

Valuation of properties

Investment properties are valued at the balance sheet date at fair value. Where investment properties are being redeveloped the property continues to be treated as an investment property. Gains and deficits attributable to the Group arising from revaluation are recognised in the statement of comprehensive income. Valuation gains reflected in retained earnings are not distributable until realised on sale.

Properties under construction, where the land option is owned but not the land, are valued at fair value, or under the cost model if the fair value cannot be reliably measured as the land option has not yet been exercised. Once the option is exercised the property under construction will be valued at fair value until practical completion, when they are transferred from development properties to investment properties.

Properties under development are valued at fair value until practical completion, when they are transferred to investment properties. Valuation gains reflected in retained earnings are not distributable until realised on sale.

Investment properties reclassified as held for sale in accordance with IFRS 5 are transferred at fair value and continue to be measured at fair value as per the requirements of IAS 40.

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Notes to the Financial Statements
continued

1. Accounting policies continued

Owner-occupied properties are valued at the balance sheet date at fair value. Valuation changes in owner-occupied property are taken to revaluation reserve through other comprehensive income. Where the valuation is below historic cost, the deficit is recognised in the statement of comprehensive income.

Trading properties held for resale are stated at the lower of cost and net realisable value.

Held for sale assets
A non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

Property, plant and equipment
Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve through other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation gain remaining in the properties revaluation reserve is transferred directly to retained earnings.

Plant and equipment is stated at cost less accumulated depreciation, less any recognised impairment.

Depreciation
Depreciation is provided on buildings, motor vehicles and fixtures and fittings on a straight-line basis over the estimated useful lives of between two and twenty-five years. Investment properties are not depreciated.

Capital grants
Capital grants received relating to the cost of building or refurbishing investment properties are deducted from the cost of the relevant property. Revenue grants are deducted from the related expenditure.

Share-based payments
The cost of granting equity-settled share options and other share-based remuneration is recognised in the statement of comprehensive income at their fair value at grant date. They are expensed straight-line over the vesting period, based on estimates of the shares or options that eventually vest. Options are valued using the Monte Carlo simulation model.

Taxation
A & J Mucklow Group is a Real Estate Investment Trust (REIT) and does not pay tax on its property income or gains on property sales, provided that at least 90% of the Group's property income is distributed as a dividend to shareholders, which becomes taxable in their hands. In addition, the Group has to meet certain conditions such as ensuring the property rental business represents more than 75% of total profits and assets. Any potential or proposed changes to the REIT legislation are monitored. It is management's intention that the Group will continue as a REIT for the foreseeable future.

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax is recognised in the statement of comprehensive income except for items that are reflected directly in equity, where the tax is also recognised in equity.

Pension costs
The cost to the Group of contributions made to defined contribution plans is expensed when the contributions fall due.

Acquisitions
On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of separable net assets. Where the fair value of the cost of acquisition exceeds the fair value attributable to such assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

Under the Group's previous policy, £0.13m of goodwill has been written off directly to reserves as a matter of accounting policy. This would be credited to the statement of comprehensive income on disposal of the business to which it related.

Investments in subsidiaries
Investments in subsidiaries are included in the parent company balance sheet at cost less any provision for impairment.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for any amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or they expire.

Trade receivables
Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of future cash flows discounted at the effective rate computed at initial recognition.

Available-for-sale assets
Mortgage receivables held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in note 13. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, which are recognised directly in the statement of comprehensive income.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss recognised in the investments revaluation reserve is included in profit or loss for the period.

Financial assets at FVTPL
Financial assets are classified as at 'fair value through profit or loss' where it is a derivative that is not designated and effective as a hedging instrument. The interest rate caps were classified as FVTPL.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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Notes to the Financial Statements

continued

1. Accounting policies continued

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accrual basis in the statement of comprehensive income using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. Revenue

	2018 £m	2017 £m
Gross rental income from investment and development properties	**24.1**	23.7
Service charge income	**1.0**	1.0
Total revenue	**25.1**	24.7

3. Property outgoings

	2018 £m	2017 £m
Service charge expenses	**1.0**	1.0
Other property expenses	**1.6**	1.0
	2.6	2.0

4. Segmental analysis

The Group has two reportable segments: investment and development property, and trading property.

These two segments are considered appropriate for reporting under IFRS 8 "Operating Segments" as these are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. The Group has a large and diverse customer base and there is no significant reliance on any single customer.

The measure of profit or loss that is reported to the Board of Directors for the segments is profit before tax. A segmental analysis of income from the two segments is presented below, which includes a reconciliation to the results reported in the Group statement of comprehensive income.

	2018 £m	2017 £m
Investment and development properties		
– Net property income	**22.5**	22.7
– Profit on disposal	**7.6**	1.9
– Gain on revaluation of investment properties	**48.7**	13.0
– Gain on revaluation of development properties	**1.0**	–
	79.8	37.6
Trading properties		
– Income received from trading properties	**–**	–
– Carrying value on sale	**–**	–
– Property outgoings	**–**	–
	–	–
Net income from the property portfolio before administration expenses	**79.8**	37.6
Administration expenses	**(3.5)**	(3.4)
Operating profit	**76.3**	34.2
Net financing costs	**(6.8)**	(4.6)
Profit before tax	**69.5**	29.6
The property revaluation gain has been recognised as follows:		
Within operating profit		
– Investment properties	**48.7**	13.0
– Development properties	**1.0**	–
	49.7	13.0
Within other comprehensive income		
– Owner-occupied properties	**0.2**	–
Total revaluation gain for the period	**49.9**	13.0

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Notes to the Financial Statements

continued

4. Segmental analysis continued

Segmental information on assets and liabilities, including a reconciliation to the results reported in the Group balance sheet, are as follows:

	2018 £m	2017 £m
Balance sheet		
Investment and development properties		
– Segment assets	**433.9**	388.3
– Segment liabilities	**(5.5)**	(6.9)
– Net borrowings	**(71.0)**	(78.5)
	357.4	302.9
Trading properties		
– Segment assets	**0.5**	0.5
– Segment liabilities	**–**	–
	0.5	0.5
Other activities		
– Unallocated assets	**1.8**	2.0
– Unallocated liabilities	**(7.3)**	(8.7)
	(5.5)	(6.7)
Net assets	**352.4**	296.7
Capital expenditure		
Investment and development properties	**7.1**	12.6
Other activities	**0.1**	0.1
	7.2	12.7
Depreciation		
Other activities	**0.1**	0.1
	0.1	0.1

All operations and income are derived from the United Kingdom and therefore no geographical segmental information is provided.

5. Profit for the year

	2018 £m	2017 £m
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**0.1**	0.1
Profit on sale of investment property	**(7.6)**	(1.9)
Net gains on revaluation of investment and development properties	**(49.7)**	(13.0)
Staff costs (see note 6)	**1.9**	2.0

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year after taxation amounted to £13.5m (2017: £13.0m).

Auditor's remuneration — KPMG LLP

	2018 £m	2017 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	**66**	52
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	**13**	13
Total audit fees	**79**	65
Half-year review	**19**	15
Total non-audit fees	**19**	15

6. Staff costs (including directors)

Staff numbers and costs

The average monthly number of persons employed by the Group (including directors) during the year was as follows:

	2018 Number	2017 Number
Management	**6**	6
Administration	**5**	5
Property	**3**	3
Total employees	**14**	14

The Parent Company has no employees other than directors and no staff costs. The remuneration of the directors is paid by another Group undertaking for the current and prior financial year and no part of their remuneration is specifically attributable to their services for this Company.

The aggregated payroll costs (including directors) were as follows:

	2018 £m	2017 £m
Wages and salaries	**1.5**	1.6
Share-based payment	**0.2**	0.2
Social security costs	**0.2**	0.2
	1.9	2.0

Pension arrangements

The Group operates defined contribution plans for qualifying permanent staff with payments invested with Standard Life Assurance Limited.

Pension contributions (including for directors) paid in the year ended 30 June 2018 amounted to £46,886 (2017: £44,536).

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Notes to the Financial Statements

continued

7. Net finance costs

	2018 £m	2017 £m
Finance costs on:		
Preference share dividend	**–**	–
Early repayment costs	**3.6**	1.2
Capitalised interest	**(0.1)**	–
Bank overdraft and loan interest payable	**3.3**	3.4
Total finance costs	**6.8**	4.6
Finance income on:		
Short-term deposits	**–**	–
Fair value movement of derivative financial instruments	**–**	–
Bank and other interest receivable	**–**	–
Total finance income	**–**	–
Net finance costs	**6.8**	4.6

8. Taxation

	2018 £m	2017 £m
Current tax		
– Corporation tax	**–**	–
	–	–
Deferred tax	**–**	–
Total tax in the statement of comprehensive income	**–**	–

The tax for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2018 £m	2017 £m
Profit before tax	**69.5**	29.6
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2017: 19.75%)	**13.2**	5.9
Effect of:		
REIT exempt income and gains	**(13.4)**	(6.1)
Losses not recognised	**0.1**	0.1
Share-based payments	**0.1**	0.1
	–	–

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. Any deferred tax balance would be calculated based on these rates as at 30 June 2018.

The Group became a Real Estate Investment Trust (REIT) on 1 July 2007.

9. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year:		
Third quarterly dividend for the year ended 30 June 2017 of 5.15p (2016: 5.00p) per share	**3.3**	3.1
Final dividend for the year ended 30 June 2017 of 7.09p (2016: 6.88p) per share	**4.5**	4.4
First quarterly dividend for the year ended 30 June 2018 of 5.09p (2017: 4.94p) per share	**3.2**	3.1
Second quarterly dividend for the year ended 30 June 2018 of 5.09p (2017: 4.94p) per share	**3.2**	3.1
	14.2	13.7

The third quarterly dividend payment of 5.30p (2017: 5.15p) will be paid on 15 October 2018 to shareholders on the register at the close of business on 14 September 2018, totalling £3.4m. As this dividend was not declared at 30 June 2018, it has not been included as a liability in these financial statements.

The directors propose a final dividend for the year ended 30 June 2018 of 7.30p (2017: 7.09p) per ordinary share, totalling £4.6m. Both dividends will be paid as PIDs.

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has therefore not been included as a liability in these financial statements.

The final dividend, if approved, will be paid on 15 January 2019 to shareholders on the register at the close of business on 14 December 2018.

10. Earnings per share and net asset value per share

Earnings per share

The basic and diluted earnings per share of 109.74p (2017: 46.63p) has been calculated on the basis of the weighted average of 63,294,833 ordinary shares (2017: 63,294,833 ordinary shares) and profit of £69.5m (2017: £29.6m).

There are no dilutive shares. Options over 108,998 ordinary shares were granted in the year (2017: 103,257 ordinary shares) under the 2015 Performance Share Plan. The vesting conditions for these shares have not been met, so they have not been treated as dilutive in these calculations. The eighth three year award under the 2007 Performance Share Plan vested in the period, with no ordinary shares being issued and with 105,418 shares lapsed.

The European Public Real Estate Association (EPRA) has issued recommended bases for the calculation of earnings and net asset value per share information and these are included in the following tables.

The EPRA earnings per share has been amended from the basic and diluted earnings per share by the following:

	2018 £m	2017 £m
Earnings	**69.5**	29.6
Profit on disposal of investment and development properties	**(7.6)**	(1.9)
Net gains on revaluation of investment and development properties	**(49.7)**	(13.0)
Early repayment costs	**3.6**	1.2
EPRA earnings	**15.8**	15.9
EPRA earnings per share	**25.06p**	25.05p

The Group presents an EPRA earnings per share figure as the directors consider that this is a better indicator of the performance of the Group.

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Notes to the Financial Statements

continued

10. Earnings per share and net asset value per share continued

Net asset value per share

The net asset value per share of 557p (2017: 469p) has been calculated on the basis of the number of equity shares in issue of 63,294,833 (2017: 63,294,833) and net assets of £352.4m (2017: £296.7m). The EPRA net asset value per share has been calculated as follows:

	2018 £m	2017 £m
Equity shareholders' funds	**352.4**	296.7
Valuation of land held as trading properties	**2.0**	1.9
Book value of land held as trading properties	**(0.5)**	(0.5)
EPRA net asset value	**353.9**	298.1
EPRA net asset value per share	**559p**	471p

11. Investment and development properties

Group	Investment £m	Development £m	Total £m
At 1 July 2016	355.0	8.1	363.1
Additions	11.6	1.0	12.6
Lease incentives	0.4	–	0.4
Impairment	–	(0.1)	(0.1)
Disposals	(2.2)	–	(2.2)
Revaluation gain	13.0	–	13.0
At 1 July 2017	**377.8**	**9.0**	**386.8**
Additions	**3.9**	**3.2**	**7.1**
Lease incentives	**1.0**	**–**	**1.0**
Capitalised interest	**–**	**0.1**	**0.1**
Reclassification to held for sale asset	**(5.0)**	**–**	**(5.0)**
Transfer	**4.5**	**(4.5)**	**–**
Disposals	**(12.3)**	**–**	**(12.3)**
Revaluation gain	**48.7**	**1.0**	**49.7**
At 30 June 2018	**418.6**	**8.8**	**427.4**

During the year the Group exchanged contracts to dispose of a small industrial investment property for £5m. A revaluation gain of £3.8m has been recorded in respect of this property in the year. The disposal is expected to complete within the next 12 months and the asset has been included as an asset held for sale.

The closing book value shown above comprises £398.0m (2017: £364.1m) of freehold and £29.4m (2017: £22.7m) of leasehold properties.

	Freehold £m	Leasehold £m	Total £m
Properties held at valuation on 30 June 2018:			
Cost	**217.4**	**25.4**	**242.8**
Valuation gain	**180.6**	**4.0**	**184.6**
Valuation	**398.0**	**29.4**	**427.4**

	Freehold £m	Leasehold £m	Total £m
Properties held at valuation on 30 June 2017:			
Cost	219.6	23.4	243.0
Valuation gain/(deficit)	144.5	(0.7)	143.8
Valuation	364.1	22.7	386.8

The properties are stated at their 30 June 2018 fair value and are valued by Cushman & Wakefield, professionally qualified external valuers, in accordance with the RICS Valuation Professional Standards published by the Royal Institution of Chartered Surveyors. Cushman & Wakefield have recent experience in the relevant location and category of the properties being valued. All properties are categorised as Level 3 in the IFRS 13 fair value hierarchy except for held for sale assets. Included within the Group condensed statement of comprehensive income is £49.7m of valuation gains which represent unrealised movements on investment and development properties. Cushman & Wakefield is the trading name of Cushman & Wakefield Debenham Tie Leung Limited.

	2018 £m	2017 £m
Cushman & Wakefield valuation	**433.5**	386.9
Owner-occupied property included in property, plant and equipment	**(1.3)**	(1.1)
Held for sale asset	**(5.0)**	–
Other adjustments	**0.2**	1.0
Investment and development properties as at 30 June	**427.4**	386.8

Additions to freehold and leasehold properties include capitalised interest of £0.1m (2017: £nil). The total amount of interest capitalised included in freehold and leasehold properties is £5.5m (2017: £5.4m). Properties valued at £321.3m (2017: £285.2m) were subject to a security interest.

During the prior year, the Group commenced construction at i54. The element of the land option relating to the unit developed that was held in other debtors was therefore transferred to Development Properties.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	30 June 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Investment and development properties	**-**	**-**	**427.4**	**427.4**
Held-for-sale assets – property	**-**	**5.0**	**-**	**5.0**
Available-for-sale assets – mortgage recievables	**-**	**0.1**	**-**	**0.1**

	30 June 2017			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Investment and development properties	**-**	**-**	**386.8**	**386.8**
Available-for-sale assets – mortgage recievables	**-**	**0.1**	**-**	**0.1**

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11. Investment and development properties continued

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the June 2018 valuation, the yields that were used ranged from 4.9% to 8.3% (June 2017: 5.0% to 8.7%) and the ERVs used ranged from £3.80 psf to £37.29 psf (June 2017: £3.32 psf to £37.29 psf). Valuation reports are based on both information provided by the Company, e.g. current rents and lease terms which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuer's professional judgement.

An increase or decrease in rental values will increase or decrease valuations, and a decrease/increase in yields will increase/decrease the valuation. There are interrelationships between these inputs as they are determined by market conditions. The valuation movement in a period depends on the balance of those inputs. Where the inputs move in opposite directions (yields decrease and rental values increase), the valuation movement is magnified. If the inputs move in the same direction (yields increase and rental values decrease), they may offset each other.

The fair value of the mortgage receivables is determined by discounting the expected future value of repayments. Interest rate caps held were externally valued based on the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates at the balance sheet date.

There were no transfers in categories in the current or prior period.

The following table analyses the interest profile of the mortgage receivables disclosed in note 13.

Group	2018 £m	2017 £m
Sterling financial assets:		
Non-interest bearing	**0.1**	0.1
	0.1	0.1

The Company has no non-sterling financial assets.

Financial assets are cash at bank and in hand, short-term deposits, derivative financial instruments and mortgage receivables. There was a money market deposit of £6.0m at 30 June 2018 (2017: £nil). Cash at bank is at floating rate based on base rate.

The fair value of financial assets is not materially different to book value.

12. Property, plant and equipment

Group	Owner-occupied property £m	Plant and vehicles £m	Total £m
Cost			
At 1 July 2016	1.1	0.5	1.6
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
At 30 June 2017	1.1	0.5	1.6
Depreciation			
At 1 July 2016	–	0.3	0.3
Charged in year	–	0.1	0.1
On disposal	–	(0.1)	(0.1)
At 30 June 2017	–	0.3	0.3
Net book value			
At 30 June 2017	1.1	0.2	1.3
At 30 June 2016	1.1	0.2	1.3
Properties held at valuation:			
Cost	0.9	–	0.9
Valuation gain	0.2	–	0.2
Valuation	1.1	–	1.1
Cost			
At 1 July 2017	1.1	0.5	1.6
Additions	–	0.1	0.1
Revaluation	0.2	–	0.2
At 30 June 2018	**1.3**	**0.6**	**1.9**
Depreciation			
At 1 July 2017	–	0.3	0.3
Charged in year	–	0.1	0.1
At 30 June 2018	**–**	**0.4**	**0.4**
Net book value			
At 30 June 2018	**1.3**	**0.2**	**1.5**
At 30 June 2017	1.1	0.2	1.3
Properties held at valuation:			
Cost	0.9	–	0.9
Valuation gain	0.4	–	0.4
Valuation	1.3	–	1.3

Owner-occupied properties are valued by Cushman & Wakefield on the same basis as the investment properties. See note 11 for details.

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13. Non-current trade and other receivables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Mortgage receivables	**0.1**	0.1	**–**	–
i54	**0.1**	–	**–**	–
Other debtors	**0.4**	0.5	**0.4**	0.5
	0.6	0.6	**0.4**	0.5

The figures shown above are after deducting a provision for bad and doubtful debts of £nil (2017: £nil).

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Fair value is determined by discounting the expected future value of repayments.

The mortgages are receivable on the disposal of the secured properties and are classified as available-for-sale assets carried at fair value in accordance with IFRS 7.

During the prior year, the Group commenced construction at i54. The element of the land option relating to the unit developed that was held in other debtors was therefore transferred to Development Properties.

14. Trading properties

Group	**2018 £m**	2017 £m
Land stock	**0.5**	0.5

15. Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Falling due in less than one year				
Trade receivables	**0.8**	1.2	**–**	–
Amounts due from Group undertakings	**–**	–	**22.1**	27.1
Prepayments and accrued income	**0.5**	0.4	**–**	–
	1.3	1.6	**22.1**	27.1

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. No provision for impairment is held against the Group undertaking balances, as the Group expects to recover the balances in full from the subsidiary companies through day-to-day transactions and intercompany dividends.

Trade Receivables

No interest is charged on the receivables. No allowance has been needed against amounts from rental income receivables (2017: £nil). This allowance has been determined by reference to past default experience.

The Group has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the creditworthiness of the counterparty.

Included in the Group's trade receivable balance are debtors with a carrying amount of £nil (2017: £0.1m) 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 does not hold any collateral over these balances. The average age of receivables not impaired is 0 days (2017: 0 days).

Ageing of past due but not impaired receivables:

Number of days past due	2018 £m	2017 £m
1–30 days	–	–
30–60 days	–	–
60–90 days	–	0.1
90 days +	–	–
Balance at 30 June past due but not impaired	–	0.1
Current	0.8	1.1
Balance at 30 June	0.8	1.2

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the tenant base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

16. Cash and cash equivalents

Group	2018 £m	2017 £m
Cash at bank and in hand	8.8	5.8

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

17. Trade and other payables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred income in respect of rents and insurances	5.5	6.9	–	–
Amounts due to Group undertakings	–	–	1.8	2.0
Trade and other payables	5.6	5.6	3.2	3.1
Accruals	1.4	2.7	0.2	0.2
	12.5	15.2	5.2	5.3

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

Trade payables, other payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Thereafter, interest is chargeable on the outstanding balances at various rates. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

18. Borrowings — bank overdraft

The Group's overdraft facility is reviewed annually.

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19. Borrowings

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Borrowings from revolving credit facility 2021	–	4.5	–	4.5
HSBC term loan 2021	19.8	19.8	19.8	19.8
Lloyds term loan 2023	–	20.0	–	–
Scottish Widows term loan 2031	59.3	39.3	–	–
675,000 (2017: 675,000) Preference shares of £1 each	0.7	0.7	0.7	0.7
	79.8	84.3	20.5	25.0

Reconciliation of movements in financial liabilities to cash flows arising from financing activities

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Interest bearing loans and borrowings				
At 1 July	84.3	78.3	25.0	38.6
New loans and borrowings	20.0	40.0	–	–
Repayments of loans and borrowings	(24.4)	(33.7)	(4.5)	(13.5)
Costs associated with refinancing of term loan	(0.2)	(0.6)	–	(0.1)
Cash flows from financing activities	(4.6)	5.7	(4.5)	(13.6)
Amortisation of costs associated with facilities	0.1	0.3	–	–
At 30 June	79.8	84.3	20.5	25.0

The HSBC facilities were renewed during the previous financial year. They consist of a £1.0m overdraft, a £20.0m five year term loan and a £44.0m five year revolving credit facility. Of the total £44.0m (2017: £44.0m) revolving credit facilities, £nil (2017: £4.5m) was utilised at 30 June 2018. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

On 20 May 2008, a loan of £20.0m was agreed with Lloyds Bank with expiry on 22 May 2023. Interest at 5.59% was payable quarterly, with repayment of the capital due at the end of the term. The loan was secured against certain freehold and leasehold properties held by A & J Mucklow (Investments) Limited, a subsidiary company. The loan was repaid on 20 June 2018.

On 20 December 2016, a loan of £40.0m was agreed with Scottish Widows with expiry on 22 December 2031. Interest at 3.51% is payable quarterly, with repayment of capital due at the end of the term. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

On 20 December 2016, the existing £20.0m 2022 loan with Lloyds Bank was repaid with the proceeds from the Scottish Widows loan.

On 20 June 2018, a further £20.0m tranche of the Scottish Widows facility was agreed, with expiry on 22 December 2031. Interest of 3.43% is payable quarterly, with repayment of capital at the end of the term. The facility is secured against certain freehold and leasehold properties held by subsidiary companies. The loan proceeds were used to repay the 2008 Lloyds loan referred to above.

The Preference shares carry the right to a fixed cumulative dividend of 7% per share per annum. This amount is payable half yearly in arrears on 30 June and 31 December each year. Until the abolition of Advance Corporation Tax in 1999, the rate applicable to the Preference shares was 4.9% net.

In the event of the Company being wound up, the Preference shares entitle the holder to repayment of the capital paid up plus a premium and any arrears of dividend (net of tax credit). The premium payable on each share will be based on the excess (if any) over par of the average daily middle-market quotations during the six months immediately preceding the relevant date, less arrears of dividend (net of tax credit).

The Preference shares carry no right to vote at General Meetings.

20. Deferred tax

The Group and Company had a deferred tax asset of £nil in respect of interest rate caps in the non-REIT business which had not been recognised due to uncertainty over taxable profits in the short-term within the non-REIT business. No interest rate caps were held at 30 June 2018.

21. Share capital

	2018 £m	2017 £m
Authorised		
Equity		
117,300,000 (2017: 117,300,000) ordinary shares of 25p each	**29.3**	29.3
Allotted, Called Up and Fully Paid		
Equity		
63,294,833 (2017: 63,294,833) ordinary shares of 25p each	**15.8**	15.8

Options over 108,998 ordinary shares were granted in the year. The conditions for vesting are disclosed in the Board Report on Directors' Remuneration on pages 34 to 49. If the vesting conditions are met, the current awards are intended to be settled by the issue of new shares.

In addition to the above, the Company has £675,000 (2017: £675,000) at nominal value of £1 Preference shares authorised and in issue, representing 4% (2017: 4%) of the Company's capital. These are classified within non-current borrowings, see note 19.

22. Reserves

The revaluation reserve represents the revaluation gain on the revaluation of owner-occupied properties. As this reserve is made up of unrealised profits and losses, it is not available for distribution to shareholders until realised through sale.

The Capital Redemption Reserve represents the nominal value of ordinary shares redeemed by the Company in prior years.

The share premium reserve represents the premium, net of costs, raised from the placing of 2,900,000 shares on 4 March 2014.

23. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns whilst maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, reserves and retained earnings.

Net debt to equity gearing ratio

The Board reviews the capital structure of the Group on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Group has a target maximum net debt to equity gearing ratio of 50% determined as the proportion of debt (net of cash) to equity. The net debt to equity gearing ratio at the year end is as follows:

	2018 %	2017 %
Net debt to equity gearing	**20**	26

Debt is defined as long and short-term borrowings, as detailed below, net of cash. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

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23. Financial instruments continued

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on Real Estate Investment Trusts.

Financial risk management

The Group seeks to minimise the effects of market risk (including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk by using a combination of fixed and floating rate debt instruments with varying maturity profiles. The Group's policy is not to enter into or trade in derivative financial instruments, other than to hedge banking facilities.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. For the last few years, the Group's low levels of net debt to equity gearing has reduced the risk to changes in interest rates. The Board reviewed the increase in borrowing requirements and forecast cash flows and decided to enter into long-term fixed rate loans to reduce the exposure to variable interest rates.

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group's exposure to interest rates on financial assets and liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5% higher and all other variables were constant, the Group's profit for the year would decrease by £0.1m (2017: decrease by £0.1m), mainly attributable to interest rates on its variable rate borrowings. If interest rates had been 0.5% lower and all other variables were constant, the Group's profit for the year would increase by £0.1m (2017: £0.1m).

The Group's sensitivity to interest rates has been reduced during the current year due to a decrease in variable rate debt instruments, with long-term fixed rate debt increasing.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are monitored and the transactions concluded are spread amongst approved counterparties.

The maximum credit risk on financial assets at 30 June 2018 is £9.7m (2017: £7.1m).

The Group's credit risk is primarily attributable to its trade and mortgage receivables and cash balances. The amounts included in the balance sheet are net of allowances for bad and doubtful debts. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Concentration of credit did not exceed 7% of annual rent to any one tenant at any time during the year.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk management

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 profile of financial assets and liabilities.

Included below is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities as at 30 June 2018. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month £m	1–3 months £m	3 months – 1 year £m	1–5 years £m	5+ years £m	Total £m
2018							
Variable interest rate instruments	**2.60**	**0.1**	**–**	**0.4**	**21.2**	**–**	**21.7**
Fixed interest rate instruments	**3.52**	**0.4**	**–**	**1.6**	**8.6**	**78.4**	**89.0**
		0.5	**–**	**2.0**	**29.8**	**78.4**	**110.7**
2017							
Variable interest rate instruments	2.11	0.2	–	0.3	25.9	–	26.4
Fixed interest rate instruments	4.23	0.3	0.3	1.9	10.3	74.9	87.7
		0.5	0.3	2.2	36.2	74.9	114.1

The interest rate caps held were independently valued calculating the present value of expected future cash flows. The mortgage receivables have been valued by discounting the expected future value of repayments.

The interest payable on the revolving credit facility, which is included in the variable rate instruments above, is included as payable within one month as monies are drawn down on a monthly basis and the interest rate is set at that point. The HSBC term loan facility rolls over on a quarterly basis and the interest rate is set at each quarterly renewal. The principal is included when the facilities are due to expire.

As the preference shares carry no right to redemption, no repayment of principal has been included in the figures. Interest payments for ten years have been included in both of the above tables.

The Group's policy for financing the business is mainly through the use of fixed rate long-term loans to manage interest rate risk. In May 2008 the Group borrowed £20.0m from Lloyds Bank for 15 years at a fixed rate of interest. This loan was repaid on 20 June 2018 and the Group borrowed a further £20.0m from Scottish Widows for a 13.5 year term at a fixed rate of interest. In October 2012 the Group borrowed a further £20.0m from Lloyds Bank for 10 years at a fixed rate of interest. This loan was repaid on 20 December 2016 and the Group borrowed £40.0m from Scottish Widows for 15 years at a fixed rate of interest.

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23. Financial instruments continued

The Group entered into interest rate caps in respect of £35.0m of the HSBC facilities (2017: £35.0m), in order to limit the impact to the Group of increases in interest rates. The caps expired in March 2018. No hedging instruments are currently held.

The Group had undrawn revolving credit facilities of £44.0m at 30 June 2018 (2017: £39.5m), which are due to expire in 2021. The Group has a £1.0m overdraft facility which expires in less than one year. £1.0m of this facility was undrawn as at 30 June 2018 (2017: £1.0m). The Group had a fully drawn £20.0m fixed rate loan facility which expired in 2023 but which was repaid in the year (2017: £20.0m), a fully drawn £60.0m fixed rate loan facility which expires in 2031 (2017: £40.0m) and a fully drawn £20.0m variable rate loan facility which is due to expire in 2021 (2017: £20.0m).

The fair values of financial assets and liabilities are disclosed below, except for the fair value information on available-for-sale financial assets, cash and cash equivalents and short-term receivables and payables which is given in notes 13, 15, 16 and 17.

Fair values As at 30 June 2018	**Book value £m**	**Fair value £m**	**Fair value adjustment £m**	**% of book value**
Financial liabilities				
Scottish Widows loan 2031	**59.3**	**60.4**	**1.1**	**2**
HSBC term loan	**19.8**	**20.0**	**0.2**	**1**
Preference shares	**0.7**	**0.7**	**–**	**9**
	79.8	**81.1**	**1.3**	**2**

Fair values As at 30 June 2017	Book value £m	Fair value £m	Fair value adjustment £m	% of book value
Financial liabilities				
Lloyds Bank loan 2023	20.0	24.6	4.6	23
Scottish Widows loan 2031	39.3	40.2	0.9	2
HSBC term loan	19.8	20.0	0.2	1
Revolving credit facility	4.5	4.5	–	–
Preference shares	0.7	0.7	–	5
	84.3	90.0	5.7	7

The fair value of the fixed rate bank loan has been externally valued by discounting expected cash flows at prevailing interest rates at the year end. The fair value of the revolving credit and term loan have been calculated by discounting expected cash flows at prevailing interest rates at the year end and are not materially different to book value. The fair value of the Preference share capital has been based on their latest trades. The interest rate caps had been externally valued by discounting expected cash flows at prevailing interest rates at the prior year end.

24. Contingent liabilities

The loan and bank facilities of the Group are secured by interlocking cross guarantees given by the Company and subsidiary undertakings. All of the loans and bank facilities are included in the Group balance sheet.

The Company and certain subsidiaries have, in the normal course of business, given guarantees in respect of development contracts of subsidiary undertakings.

25. Operating leases

The Group as lessor

The Group leases out all of its investment properties under operating leases.

Future aggregate minimum rentals receivable under non-cancellable operating leases are:

Group	2018 £m	2017 £m
Not later than one year	**23.6**	22.3
Later than one year but not later than five years	**68.9**	61.9
Later than five years	**63.7**	58.4
	156.2	142.6

Property rental income earned during the year was £24.1m (2017: £23.7m). Direct operating expenses arising on the investment property in the period amounted to £1.6m (2017: £1.0m). No one tenant accounts for more than 7% of annual passing rent.

Lease terms vary depending upon the property use and the lease length, but no tenant has the option to purchase a property at the end of their lease.

26. Commitments

Group	2018 £m	2017 £m
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	**–**	5.1

27. Related party transactions

Investments in subsidiaries

Company	£m
As at 1 July 2017	186.1
Impairment	–
As at 30 June 2018	**186.1**

The shares in the subsidiary undertakings are stated at cost, less any provision for impairment.

The Group has a related party relationship with its subsidiaries and its directors. Transactions between the Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition, the remuneration of the key management personnel (including directors) of the Group, is disclosed in aggregate below and is provided in detail in the audited part of the Board Report on Directors' Remuneration.

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27. Related party transactions continued

The Company undertakes the following transactions with its active subsidiaries:

— Providing day-to-day funding; and

— Receiving dividends of £14.5m (2017: £14.0m).

Remuneration and key management personnel

The remuneration of the key management personnel (including directors) of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Board Report on Directors' Remuneration on pages 34 to 49.

Group	2018 £m	2017 £m
Short-term employee benefit	1.4	1.6
Post-employment benefits	0.1	0.1
Share-based payment	0.2	0.2
	1.7	1.9

There have been no other related party transactions with directors.

28. Share-based payments

Equity-settled share option scheme

The Group has a share option scheme for certain employees of the Group. The vesting period is 3 years, subject to a two year holding period which applies to amounts due to executive directors under the 2015 PSP. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest, unless they are deemed to be a good leaver in accordance with the scheme rules.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Exercise price in p	Number of share options	Exercise price in p
Outstanding at 1 July	303,120	25	287,469	25
Granted during the year	108,998	25	103,257	25
Lapsed during the year	(105,418)	25	(87,606)	25
Outstanding at 30 June	306,700	25	303,120	25
Exercisable at 30 June	–	–	–	–

No options over ordinary shares were exercised during the year.

The aggregate of the estimated fair values of the options granted during the year is £0.3m (2017: £0.3m).

The weighted average remaining contracted life of the options outstanding at 30 June 2018 was 1.4 years. The exercise price for all options is 25p per share.

The inputs into the Monte Carlo simulation model are as follows:

	2018		2017	
	Executive	**Senior Management**	Executive	Senior Management
Share price at valuation date	**505.5p**	**505.5p**	495.25p	495.25p
Exercise price	**25p**	**25p**	25p	25p
Expected volatility	**27%**	**27%**	22%	22%
Risk-free rate	**0.81%**	**0.57%**	0.23%	0.09%
Expected dividend yield	**4.4%**	**4.4%**	4.5%	4.5%

Expected volatility was determined by calculating the historical volatility of the Group's share price over a term commensurate with the expected life of each option.

The Group recognised total expenses of £0.2m related to equity-settled share-based payment transactions in the year ended 30 June 2018 (2017: £0.2m).

29. Post balance sheet events

There are no material events to report since 30 June 2018.

30. Subsidiary undertakings

A & J Mucklow Group plc, the ultimate Parent Company, is a public limited company registered in England and Wales, domiciled in the United Kingdom. The Company's registered office is 60 Whitehall Road, Halesowen, West Midlands, B63 3JS. The Company is the holding company for the Group.

A & J Mucklow Group plc holds ordinary shares in the following wholly owned subsidiary undertakings. All were registered and operated in England and Wales.

Property investment and development
A & J Mucklow (Halesowen) Limited
A & J Mucklow (Investments) Limited
A & J Mucklow (Properties) Limited
Penbrick Limited

Trading
A & J Mucklow & Co Limited

Administrative
A & J Mucklow (Nominees) Limited

Dormant
A & J Mucklow (Birmingham) Limited
A & J Mucklow (Callowbrook Estate) Limited
A & J Mucklow (Estates) Limited
A & J Mucklow (Ettingshall Estate) Limited
A & J Mucklow (Lancashire) Limited
A and J Mucklow (Lands) Limited
A & J Mucklow (Wollescote Estate) Limited
Barr's Industrial Limited
Belfont Homes (Birmingham) Limited

The registered office of all of the above named companies is 60 Whitehall Road, Halesowen, West Midlands, B63 3JS.

MUCKLOW

Shareholder Information

for the year ended 30 June 2018

Five year record

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue					
Gross rental income	**24.1**	23.7	22.9	21.6	21.1
Net property income	**22.5**	22.7	22.0	20.6	20.1
Profit on disposal of investment properties	**7.6**	1.9	–	0.1	0.3
Operating profit	**76.3**	34.2	28.9	59.8	44.8
Underlying pre-tax profit	**15.7**	15.9	15.0	13.9	12.9
Statutory pre-tax profit	**69.5**	29.6	25.2	56.2	40.7
Capital					
Net assets	**352.4**	296.7	280.6	268.6	225.0
Property portfolio	**433.5**	386.9	364.2	349.7	298.9
Per ordinary share					
Basic earnings	**109.74p**	46.63p	39.86p	89.02p	66.45p
EPRA earnings	**25.06p**	25.05p	23.88p	22.21p	21.09p
Ordinary dividend*	**22.78p**	22.12p	21.47p	20.84p	20.23p
Basic net asset value per share†	**557p**	469p	443p	424p	356p
EPRA net asset value per share	**559p**	471p	446p	427p	358p

* Representing interim paid, quarterly and final proposed dividend for the year.
† Excludes surplus on land held as trading properties.

Investor Relations

Annual General Meeting

The Group's Annual General Meeting will be held on Tuesday 13 November 2018 at 11.30 a.m. at the Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, B15 3TR.

Share Price Information

A & J Mucklow Group plc is listed on the main market of the London Stock Exchange (symbol: MKLW; ISIN: GB0006091408).
Legal Entity Identifier (LEI): 21300M1Q89HWSY7ES84

Website

Please visit the Group's website (www.mucklow.com) for further information about the Group.

Environmental matters

This document is produced from 100% virgin fibre, is FSC® certified and is ECF (Elemental Chlorine Free).

Financial Calendar

Annual General Meeting		13 November 2018
Results announced		
For the half year to 31 December 2018		February 2019
For the year to 30 June 2019		September 2019
Ordinary dividends		
Third quarterly for 2018	– announce	4 September 2018
	– pay	15 October 2018
Final for 2018	– announce	4 September 2018
	– pay	15 January 2019
First quarterly for 2019	– announce	February 2019
	– pay	April 2019
Second quarterly for 2019	– announce	February 2019
	– pay	July 2019

Glossary

Base rate is the rate at which the Bank of England lends to other financial institutions.

Book value is the amount at which assets and liabilities are reported in the financial statements.

BREEAM is the European Building Research Establishment Environmental Assessment Method.

Company is A & J Mucklow Group plc.

Development construction cost is the total cost of construction of a project to completion, excluding site values and finance costs.

Development properties are properties held for development purposes and are shown as non-current assets in the balance sheet.

Earnings per share (EPS) is earnings, in pence, attributable to each equity share, and consists of profit/(loss) after tax divided by the weighted average number of shares in issue during the period.

EPRA is the European Public Real Estate Association.

EPRA earnings are the profit/(loss) after taxation excluding investment and development property and derivative financial instrument revaluations and gains/(losses) on disposals of investment, development and trading properties, early repayment costs and their related taxation whether deferred or otherwise.

EPRA net asset value is the net asset value, excluding deferred tax on property revaluation gains and including the surplus on trading properties and excluding the fair value of derivative financial instruments.

Equivalent yield represents the return a property will produce based upon the timing of the income received. In accordance with usual practice, the equivalent yields (as determined by the Group's external valuers) assume rent received annually in arrears and on values excluding prospective purchasers' costs.

Estimated rental value (ERV) is the Group's external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

Finance lease is a lease that transfers substantially all the risks and rewards of ownership from the lessor to the lessee.

Group is A & J Mucklow Group plc and its subsidiaries.

IFRS is International Financial Reporting Standards.

Initial yield is the initial immediate return of the property at the stated valuation based on the present income the property produces. It is calculated by reference to current passing rent divided by the values excluding prospective purchaser's costs.

Lease incentives are any incentives offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free period, or a cash contribution to fit-out or similar costs. For accounting purposes, under IFRS, the value of the rent-free period is spread over the life of the lease.

Loan to value is total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus non-equity shares as a percentage of the property portfolio valuation.

Mark to market is the difference between the book value of an asset or liability and its market value.

Market value in relation to property assets is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers). In accordance with usual practice, the Group's external valuers report valuations net, after the deduction of the prospective purchaser's costs, including stamp duty, agents' and legal fees.

Net asset value (NAV) per share is total equity divided by the number of ordinary shares in issue at the period end.

Net debt to equity gearing is total borrowings, including bank overdrafts, less short-term deposits, corporate bonds and cash, at book value, plus non-equity shares as a percentage of equity shareholders' funds.

Net rental income is the rental income receivable in the period after payment of ground rents and net property outgoings. Net rental income will differ from annualised net rents and passing rent due to the effects of income from rent reviews, net property outgoings and accounting adjustments for fixed and minimum guaranteed rent reviews and lease incentives.

Occupancy rate is the area of let units expressed as a percentage of the total area of the portfolio, excluding development properties.

Planning Consent gives consent for a development, and covers matters such as use and design. Full details of the development scheme must be provided in an application for full planning consent, including detailed design, external appearance and landscaping before a project can proceed. Outline planning consent establishes the broad outline of the scheme and is subject to the later approval of the details of the design.

Pre-let is a lease signed with an occupier prior to completion of a development.

Property Income Distribution (PID). As a REIT the Group is obliged to distribute 90% of the tax-exempt profits. These dividends, which are referred to as PIDs, are subject to withholding tax at the basic rate of income tax. Certain classes of shareholders may qualify to receive the dividend gross. See our website (www.mucklow.com) for details. The Group can also make other (normal) dividend payments which are taxed in the usual way.

PSF is per square foot.

Qualifying activities/qualifying assets is the ownership (activity) of property (assets) which is held to earn rental income and qualifies for tax-exempt treatment (income and capital gains) under UK REIT legislation.

Real Estate Investment Trust (REIT) is a listed property company which qualifies for and has elected into a tax regime, which exempts qualifying UK property rental income and gains on investment property disposals from corporation tax. A & J Mucklow Group converted to REIT status on 1 July 2007.

Total shareholder return is the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of stock.

Trading properties are properties held for trading purposes and are shown as current assets in the balance sheet.

Underlying pre-tax profit is defined as the investment/development operations of the Group. See the investment/development column in the tables on page 12 of the finance review for the calculations. It excludes revaluation movements, profit on the sale of investment and trading properties and early repayment costs.

Vacancy rate is the area of vacant properties expressed as a percentage of the total area of the portfolio, excluding development properties.

Yield is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation, excluding development properties.

Yield shift is a movement (negative or positive) in the equivalent yield of a property asset.

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