

MUCKLOW

A&J Mucklow Group plc

Annual Report and Financial Statements

for the year ended 30 June 2014

Stock Code: MKLW



Welcome to

MUCKLOW



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. The ordinary dividend has increased in 47 of the last 52 years as a public company and has never been cut.



See more information online
www.mucklow.com



Star Gate, Birmingham



Redwood Trade Park, Oldbury



Compton Court, Coventry



202-208 High Street, Harborne

Contents

Strategic Report

Financial Summary	03
Chairman's Statement	04
Property and Finance Review	08
Principal Properties	18
Principal Risks and Uncertainties	20
Corporate and Social Responsibility	21

Governance

Chairman's Introduction to Governance	25
Board of Directors	26
Professional Advisers and Senior Management	27
Statement of Corporate Governance	28
Audit Committee Report	33
Board Report on Directors' Remuneration	36
Directors' Report	54

Financials

Directors' Responsibilities Statement	58
Independent Auditor's Report	59
Group Statement of Comprehensive Income	63
Statement of Changes in Equity	64
Group Balance Sheet	65
Parent Company Balance Sheet	66
Group Cash Flow Statement	67
Parent Company Cash Flow Statement	68
Notes to the Financial Statements	69

Shareholder Information

Five Year Record	93
Investor Relations	93
Financial Calendar	93
Glossary	94
Mucklow Performance Comparison	97



Strategic Report

Financial Summary	03
Chairman's Statement	04
Property and Finance Review	08
Principal Properties	18
Principle Risks and Uncertainties	20
Corporate and Social Responsibility	21

Financial Summary

for the year ended 30 June 2014

Statement of comprehensive income

	Year ended 30 June 2014	Year ended 30 June 2013
Pre-tax profit	£40.7m	£16.3m
Underlying pre-tax profit ⁽¹⁾	£12.9m	£13.5m
Basic EPS	66.45p	27.21p
EPRA EPS ⁽²⁾	21.09p	22.43p
Ordinary dividend per share	20.23p	19.64p

Balance sheet

	30 June 2014	30 June 2013
Net asset value	£225.0m	£182.5m
Basic NAV per share	356p	303p
EPRA NAV per share ⁽³⁾	358p	305p
Net debt	£66.8m	£74.9m
Gearing	30%	41%

Property portfolio

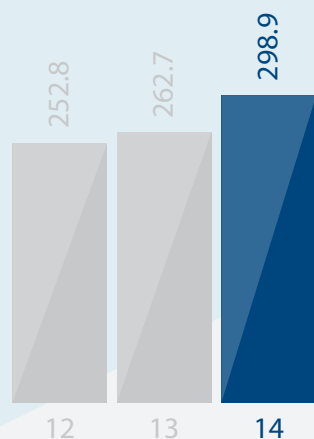
	30 June 2014	30 June 2013
Vacancy rate	6.7%	6.7%
Portfolio value ⁽⁴⁾	£298.9m	£262.7m
Valuation gain	£27.7m	£2.7m
Initial yield on investment properties	6.8%	7.8%
Equivalent yield	7.9%	8.5%

Recommended final dividend of 11.19p per share (2013: 10.86p), making the total in respect of the year ended 30 June 2014 20.23p per share (2013: 19.64p). The final dividend will be paid as a Property Income Distribution (PID).

1. See page 14 of the property and finance review for the calculations.
2. Excludes the profit on disposal of investment, development and trading properties and the revaluation of investment and development properties and derivative financial instruments and tax adjustments. See note 10.
3. Excludes the fair value of derivative financial instruments and includes the surplus on trading properties. See note 10.
4. See note 11.

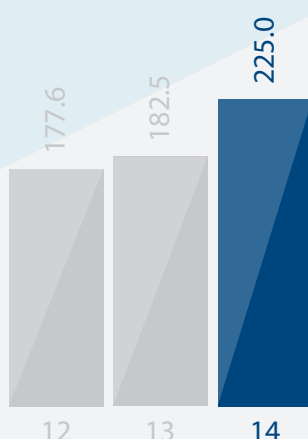
Portfolio Value

Up 14%
at £298.9m
(2013: £262.7m)



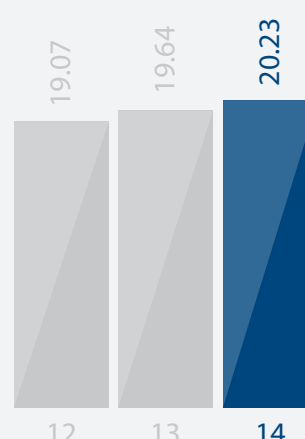
Net Asset Value

Up 23%
at £225.0m
(2013: £182.5m)



Ordinary Dividend

Up 3%
at 20.23p
(2013: 19.64p)



Chairman's Statement



Rupert Mucklow
Chairman

“I am pleased to report another strong performance by the Group for the year ended 30 June 2014. Property values have risen by 10.2% on the back of improved occupier and investor demand”

I am pleased to report another strong performance by the Group for the year ended 30 June 2014. Property values have risen by 10.2% on the back of improved occupier and investor demand, which has helped increase our pre-tax profit by 150% and net asset value per share by 17%.

Results

Statutory pre-tax profit for the 12 months was £40.7m, compared with £16.3m for the corresponding period last year. There was a small contribution of £0.03m from trading profit (2013: nil).

The underlying pre-tax profit, which excludes revaluation movements and profit on the sale of investment and trading properties was £12.9m (2013: £13.5m). The previous year's underlying pre-tax profit figure included a one off premium of £0.36m from the surrender of a lease.

Additional expenditure on various industrial properties, to assist the marketing of vacant space and higher finance costs, following the extension of our principal banking facilities in the previous year, contributed towards a slightly lower underlying pre-tax profit. EPRA adjusted earnings per share was 21.09p (2013: 22.43p).

EPRA net asset value per Ordinary share increased by 53p, from 305p to 358p. Shareholders' funds rose to £225.0m (2013: £182.5m), while borrowings net of cash amounted to £66.8m (2013: £74.9m). Debt to equity gearing was lower at 30% (2013: 41%).

Dividend

The Board is recommending the payment of a final dividend of 11.19p per Ordinary share, an increase of 3% over last year (2013: 10.86p), making a total for the year of 20.23p (2013: 19.64p). Following the approval by shareholders at the AGM, the final dividend will be paid on 2 January 2015, to shareholders on the register at the close of business on 28 November 2014. The final dividend will be paid as a PID.

Performance

The Group's principal objective is the long-term enhancement of shareholder value through dividend and capital appreciation. The Board are proud of the fact that the Ordinary dividend has increased in 47 of the last 52 years as a Public Company and has never been cut.

The Directors have the responsibility of making strategic decisions, which will benefit the performance of the property portfolio and value of the business over the long-term. Timing of decisions and minimising risks are the key factors influencing investment returns, which are necessary in order to maintain income and asset growth.

The Group's low gearing and strong financial position over the last 7 years, has enabled us to acquire a number of quality investment properties, on attractive terms, which combined with our existing modern property portfolio, are now starting to show signs of rental and capital growth.

Longer term decisions made to refinance banking facilities and invest in upgrading some of our older industrial properties have impacted underlying pre-tax profit over the last 12 months. However, the Ordinary dividend is still covered by the lower underlying pre-tax profit, which is likely to improve as rental income grows.

Shareholders may be interested to know that an investment of £1,000 in Mucklow Ordinary shares on flotation in 1962 would be worth £2.36m at 30 June 2014, assuming dividends had been reinvested. The total shareholder return has averaged over 16% per annum for the last 52 years.

Property Review

The value of our property investment portfolio has benefited significantly over the last 12 months from improving economic conditions and a resurgence in confidence and activity from both occupiers and Investors.



See more information online
www.mucklow.com



Apex Park, Worcester

358p

EPRA net asset value per Ordinary share increased by 53p, from 305p to 358p.

£225.0m

Shareholders' funds rose to £225.0m (2013: £182.5m).

We acquired two investment properties in the first half year in Halesowen and Kings Heath, Birmingham for £6.71m. We started our pre-let development at Worcester in the second half year, with an end value of around £10m; acquired and refurbished a vacant industrial building in Tyseley, Birmingham for £1.74m and sold an office building in Worcester for £3.85m.

The property investment market became very competitive in the second half of the year. We found it more difficult to acquire suitably priced investment properties, so we shifted our focus towards development and are looking for other opportunities to add value.

We have invested over £0.5m of additional non-recoverable expenditure on various industrial properties over the last 12 months, mainly to assist lettings and improve rents. This has had a small impact on our underlying pre-tax profit, but is reflected in valuation improvements.

Regional Occupier Market

Occupational demand for modern industrial property in the Midlands has been steadily improving for the last 18 months and we are starting to achieve rental growth in certain locations, on the back of a shortage of available space.

Our average industrial rent on let space at 30 June 2014 was £5.13 psf (2013: £5.07 psf). Rental levels achieved on new lettings and lease renewals during the year increased by approximately 3%.

We acquired a vacant 36,000 sq ft industrial building at Redfern Park, Tyseley, Birmingham in the second half of our financial year for £1.48m. The property was built in the 1990's and adjoins an existing holding. We have refurbished the building to a high standard and it is now available for rent at £0.21m per annum (£5.75 psf). The total cost, including stamp duty was £1.74m.

Chairman's Statement continued

Our vacancy rate at 30 June 2014 was maintained at 6.7% (2013: 6.7%). The void rate would have been 5.7% if we had not acquired the above mentioned vacant building at Redfern Park in the second half of the year. There is strong interest in a number of our vacant properties.

Regional Investment Market

There has been a significant adjustment in property yields during our second half year. A shortage of investment opportunities and a large increase in the amount of capital available to invest in regional property has caused yields to compress.

We acquired a modern 62,000 sq ft industrial unit with an acre of expansion land in Halesowen, West Midlands for £3.66m in September 2013. The property is let on a long lease at a rent of £0.34m per annum.

We also acquired three modern retail units with car parking totalling 16,226 sq ft in December 2013. The retail properties were built in 2001 and are located next to a large Sainsburys food store, on a busy High Street in Kings Heath, Birmingham. The current rent is £0.27m per annum and the cost was £3.05m.

A 23,061 sq ft office building at Worcester was sold towards the end of our financial year for £3.85m. The property was let on a short lease at a rent of £0.31m per annum. We acquired the property in 1999 for £2.83m. It was sold for £0.23m above book value.

Development

Construction of our 116,000 sq ft pre-let distribution warehouse at Apex Park, Worcester, started in March 2014. The cost to complete the development will be around £5.5m and the project is expected to be operational by Worcester Bosch and producing rent (£0.72m per annum) in December 2014.

Given the strength of the occupier market and lack of available stock, we are actively promoting our 20 acre site at Tyseley, Birmingham for pre-let development, where we have outline planning consent for 360,000 sq ft of industrial/warehouse space.

Valuation

DTZ Debenham Tie Leung revalued our property portfolio at 30 June 2014. The investment properties and development land were valued at £298.9m, which showed a revaluation surplus of £27.7m (10.2%).

The initial yield on the investment properties was 6.8% (30 June 2013: 7.8%), increasing to 7.3% on the expiry of rent free periods. The equivalent yield was 7.9% (30 June 2013: 8.5%). Our industrial property increased in value by 10.9%; offices by 9.6% and retail by 11.1%.

DTZ Debenham Tie Leung also revalued our trading properties at 30 June 2014. The total value was £1.9m, which showed an unrecognised surplus of £1.5m. There was a small disposal during the year realising a profit of £0.03m.

Placing of New Shares

In March 2014, we placed 2.9m new shares with Institutional Investors, representing 4.8% of our issued share capital. The shares were placed at 490p each, realising £13.8m net of costs.

The proceeds have been used to redeem the remaining £4.2m of our 11.5% debenture stock which matured in July 2014 and to fund the development at Apex Park, Worcester (approximately £5.5m). The balance is being used to fund future investment or development opportunities.

Finance

Total net borrowings at 30 June 2014 were £66.8m (30 June 2013: £74.9m). Undrawn banking facilities totalled £35.5m, while net debt to equity gearing had reduced to 30% (30 June 2013: 41%) and loan to value 22% (30 June 2013: 28%).

Our gross finance costs, including arrangement fees, have increased by £0.5m over the last 12 months, as a consequence of renewing our principal banking facilities in the previous year. Following the redemption of our debenture stock on 1 July 2014, the average cost of debt has fallen to 4.0% (30 June 2013: 4.3%).

Employees

Mucklow has a small team of 12 employees and three independent Non-Executive Directors. I wish to thank them all for their hard work and commitment over the last 12 months.

Our Non-Executive Directors attend 11 Board meetings a year and make a considerable contribution to the success of our business. Their work load has increased considerably in recent years, to comply with new Corporate Governance requirements.

Shareholders will see in the Remuneration report that Non-Executive Directors fees have risen by over 28% this year, from £27,186 to £35,000, following a review of comparable companies by the Executive Directors. I had no hesitation in supporting this increase and I believe we are fortunate to have such a strong Board.

Principal Risks and Uncertainties

There has been no change to the principal risks and uncertainties of the Group, which remain as disclosed on page 20 of the Annual Report for the year ended 30 June 2014.

Outlook

The Company is in good shape with a quality investment portfolio and a strong balance sheet. We expect the regional occupier and investment markets to continue to improve over the next 12 months and rental growth to accelerate as the limited supply of available space falls.

We may struggle to acquire any further investment properties, while the market is so competitive and we are not prepared to compromise on quality. However, I am sure our team will continue to find ways to grow rental income and improve the value of our property portfolio over the next twelve months.

Rupert Mucklow

Chairman

2 September 2014

Property and Finance Review



Justin Parker
Managing Director



David Wooldridge
Finance Director

“We have maintained our high occupancy rate of 93.3% and increased our gross rental income by 3.6%. The Midlands industrial market continues to improve, with a lack of available stock leading to a rise in rental levels”

Overview

Occupational and investment markets have continued to improve during the financial year, leading to a £27.7m revaluation increase and an increase in pre-tax profit from £16.3m to £40.7m.

Three investment properties have been acquired in the year, works are well underway at our pre-let 116,000 sq ft industrial/warehouse unit in Worcester and in May 2014 we have disposed of an office property in Worcester at a 6.5% premium to the last valuation.

We have maintained our high occupancy rate of 93.3% and increased our gross rental income by 3.6%. The Midlands industrial market continues to improve, with a lack of available stock leading to a rise in rental levels. During the year we have carried out refurbishments at a number of properties in our existing portfolio in order to benefit from increased occupier demand in future financial years.

Our balance sheet remains strong, with gearing decreasing from 41% to 30%, mainly as a result of the increase in property values and the issue of around 5% of our share capital in March 2014, to provide funds for the Worcester development and the redemption of our 11.5% Debenture Stock on 1 July 2014.

Strategy and Business Model

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 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.

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

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 office and retail properties also offer an attractive income return and capital growth prospects, as well as diversifying our income stream and customer base.

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 business expands, or their requirements reduce, within our existing portfolio.

The three areas of our strategy are:

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

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.

The core of our business is the investment property portfolio, which represents 96% of the value of the investment and development properties held. The investment portfolio consists of 56 properties/estates, with 340 units, totalling 3.6m sq ft.

Amber Way

Location:

Halesowen

Acquired:

September 2013

Lettable Space:

62,000 sq ft

Cost:

£3.66m



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

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

Our low cost base, including only twelve employees, as well as three 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 on investment acquisitions.

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.

Key performance indicators

As stated above, 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 gearing.

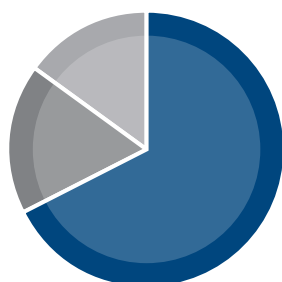
Key Performance Indicators	2014	2013
Underlying pre-tax profit* (£000)	12,907	13,464
Vacant space (%)	6.7	6.7
Dividend growth (%)	3.0	3.0
Gearing (net of cash) (%)	30	41

* See the table on page 14 for the calculations.

Relative total shareholder return, over a three year period, is the performance measure used for the Group's Performance Share Plan, aligning the remuneration of the Managing Director and Finance Director with returns received by shareholders.

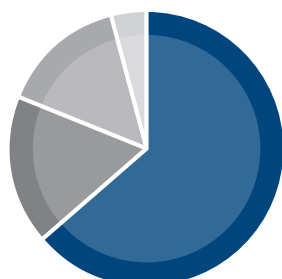
Property and Finance Review continued

Rent £m pa



- Industrial 14.6
- Offices 3.8
- Retail 3.2

Capital Value £m



- Industrial 190.8
- Retail 51.9
- Offices 44.5
- Investment Portfolio £287.2m
- Land/Development 11.7

Group structure

A & J Mucklow Group plc has five main subsidiaries for property development and investment. All of the Group's properties are wholly owned.

Properties let to a single tenant are tenant managed, and portfolio managers at A & J Mucklow Group plc monitor the management of the sites regularly.

On multi-let properties the day-to-day management is outsourced to managing agents, who report to portfolio managers at A & J Mucklow Group plc.

Market review

The signs of greater investor demand and increased depth and liquidity in the Midlands industrial market that were apparent at the end of our last financial year have continued, particularly in the last few months of our financial year.

There is currently strong demand for regional industrial property from investors, as risk appetite increases, and the weight of money chasing a limited amount of stock is pushing down yields. This trend in declining yields has been seen across all of our property types in the second half of the financial year.

Whilst occupier demand has increased, tenant choice, particularly for buildings over 50,000 sq ft, has reduced, and speculative development remains limited.

This lack of supply is leading to an increase in rental levels for industrial properties and we are starting to see this reflected in new leases and lease renewals and expect this trend to continue.

Acquisition and disposal of investment properties

Whilst property values have been depressed over the last five years, we have taken advantage of weaker investor demand, and our low level of gearing, to acquire eleven investment properties, mainly industrial, with a total cost of £41.6m. During the year

under review we have acquired two further investment properties and a vacant industrial unit.

Amber Way, acquired in September 2013 for £3.66m, is a modern 62,000 sq ft industrial unit with an acre of expansion land. The property is let to Wyko Group Limited on a fifteen year lease expiring in 2021, with an annual rent of £0.34m. The net initial yield was 8.8%.

Three modern retail units (16,226 sq ft) on a busy high street in Kings Heath, Birmingham, were acquired in December 2013. The properties, located next to a Sainsbury's store, were built in 2001. The units are let to Poundstretcher, Dreams and Carphone Warehouse. The combined rent is currently £0.27m and the cost was £3.05m, offering a net initial yield of 8.4%.

Given increased investor appetite for industrial investment property in the Midlands during the second half of our financial year, particularly the last few months, it has been more difficult to acquire standing investments at attractive rates of return. We have, however, managed to acquire a vacant 36,000 sq ft industrial building at Tyseley (Birmingham) for £1.48m, a capital value of only £41 per square foot. Refurbishment works costing £0.16m have been carried out to the unit and we are marketing the unit for an annual rent of £0.2m. The property is in a corner plot, bordering our existing holdings at Redfern Park, totalling 41,500 sq ft.

We disposed of Century House, a 23,061 sq ft office building close to junction 6 of the M5 at Worcester let on a rent of £305,900 pa with five years remaining on the lease, to an owner occupier in May 2014 at a yield of 7.5%. The proceeds of £3.85m represented a 6.5% premium to the 31 December 2013 valuation of £3.62m. The property was acquired by the Group in 1999 for £2.83m (including costs).

Kings Heath

Location:

Birmingham

Acquired:

December 2013

Lettable Space:

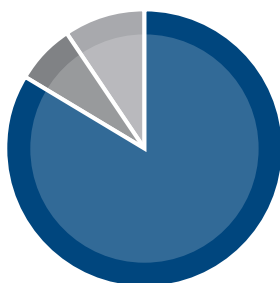
16,226 sq ft

Cost:

£3.05m

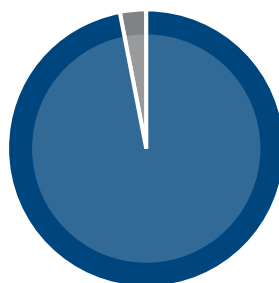


Let Space sq ft



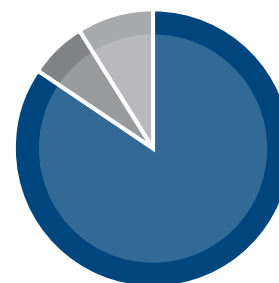
- Industrial 2,846,224
- Offices 240,709
- Retail 315,295

Vacant Space sq ft



- Industrial 235,863
- Offices 7,263
- Retail —

Total Space sq ft



- Industrial 3,082,087
- Offices 247,972
- Retail 315,295

Developing new properties for long-term investment

In November 2013 we agreed terms with Worcester Bosch Group to build a new 116,000 sq ft distribution unit on our Apex Park, Worcester land, to be let on a 12.5 year lease. The deal is conditional on us taking back their existing 50,000 sq ft at Knightsbridge Park, Worcester, which was subject to a break option in October 2015, on completion of the development.

Planning consent was granted in January 2014 and construction started on site in March.

The construction cost is expected to be £5.5m and the building is due to be complete in December 2014. Annual rent of £0.72m commences on completion.

Our only other remaining development land is the 20 acre site at Tyseley, Birmingham, suitable for up to 360,000

sq ft of industrial/warehouse space. There is currently a shortage of larger industrial units (in excess of 50,000 sq ft) available in the Midlands and the Tyseley site is one of the few remaining larger development land sites in the Birmingham area. We are promoting the site for pre-lets of high quality industrial/warehouse units, with a very good BREEAM rating.

Property and Finance Review continued

Actively managing our assets to enhance value

We continue to look for opportunities to increase rental and capital values, and improve the unexpired term of leases, on our existing investment portfolio. Given the strength of occupier interest, we have invested in the vacant units, to make them more attractive for potential customers and to support and grow rental income.

Our aim is to keep our occupancy levels high, in order to improve our income and reduce our void costs. An occupancy rate above 90% is targeted throughout the property cycle.

In the first half of the financial year we invested over £0.3m of non-recoverable expenditure, in particular at our Enterprise Trading Estate (Dudley) and Hazelwell Mills (Stirchley) industrial estates. In the second half, further refurbishment works have commenced at our Forward Park Trading Estate, to split a 26,000 sq ft unit, and on a 25,000 sq ft unit at Long Acre Trading Estate, for a new lease that commenced in July 2014.

We agreed lease renewals and extensions over £0.75m of annual rental income in the first six months of our financial year, and over £0.81m of annual rental income

in the second half. The rent free periods given on those leases will have a short-term impact on our cash flow, but the leases improve the security of our income streams.

We extended an existing lease on our retail property at Tewkesbury Road, Cheltenham for a further ten years, to expire in June 2033. The lessee, in turn, has substantially re-configured the dealership to create a modern Audi showroom and servicing depot at a cost to themselves of £1.5m. The annual rent remained unchanged and is due to be reviewed in June 2018.

Occupancy

Our vacancy rate has remained unchanged from the prior year, due to the acquisition of the vacant unit at Redfern Park (Tyseley) representing 1% of the portfolio three months before our financial year end.

We expect our void level to fall below 6% by the end of our 2015 financial year.

Valuation

The external valuation of the Group's investment and development portfolio at 30 June 2014 totalled £298.9m, leading to a valuation surplus of £27.7m, of which £27.6m is recognised in the statement of comprehensive income. The majority of the uplift (£20.0m) came in the second half of the financial year, reflecting the strength of the investment market in the second half.

Industrial properties increased in value by 10.9%, offices by 9.6% and retail by 11.1%. The initial yield of the portfolio decreased by 100 bps, and the equivalent yield by 60 bps.

Yield breakdown – investment properties

	Initial yield 30/06/14	Initial yield 30/06/13	Equivalent yield 30/06/14	Equivalent yield 30/06/13
Industrial	7.0%	8.0%	8.0%	8.8%
Office	7.5%	7.6%	8.2%	8.7%
Retail	5.9%	7.0%	6.9%	7.5%
Total	6.8%	7.8%	7.9%	8.5%

Finance review

The results for the financial year ended 30 June 2014 show the continuation of the Group's healthy performance, with a further increase in rent roll from acquisitions. We have improved the quality of the existing portfolio through refurbishment programmes and lease renewals and new leases, which have increased our underlying cost base, but those actions, in conjunction with the strength of investor demand for property assets, have helped to deliver a strong capital value performance from our existing property assets.

Income

Statutory pre-tax profit has increased by 150% to £40.7m (2013: £16.3m), mainly as a result of the £27.6m revaluation uplift (2013: £2.8m). Our underlying pre-tax profit has reduced by 4.1% to £12.9m (2013: £13.5m), with higher rental income being offset by the investment in our existing portfolio, administration costs relating to new leases, renewals and regears and higher net finance costs.

Gross rental income has increased by £0.7m to £21.1m, with the two income producing acquisitions in the year contributing £0.6m to our gross annual rent roll. As a result of increased property outgoings from the refurbishment costs referred to above, and the £0.4m premium

from the surrender of a lease recognised in the prior year, net rental income has increased by £0.3m, from £19.8m to £20.1m.

Administration expenses increased by £0.2m (8%), the main reasons being legal, professional and agents fees for the new leases, renewals and re-gears in the period. Total salary costs increased by £0.05m (2.6%) and bad debts remain low at 0.1% of gross rental income.

Our net finance costs increased by £0.7m, with interest on bank facilities increasing by £0.5m, mainly due to higher levels of drawdown during the year and level of fixed rate debt. Interest receivable reduced by £0.1m. The Group's interest rate caps are not accounted for as hedges, leading to a £0.1m movement in fair value included in the interest cost.

A profit of £0.3m, over the 31 December 2013 valuation, has been realised on the sale of the Century House office building in Worcester.

Taxation

The Group continues to operate as a Real Estate Investment Trust, so profits and gains from the property investment business are normally exempt from corporation tax. No corporate tax charge has arisen in the 2014 financial year.

Dividend

An interim dividend of 9.04p per share was paid as a Property Income Distribution ("PID") on 30 June 2014.

The Board proposes a 3% increase in final dividend, in line with the increase at the interim stage, to 11.19p (2013: 10.86p). The final dividend will be paid as a PID.

If approved, the dividend will be paid on 2 January 2015 to Shareholders on the register on the close of business on 28 November 2014.

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.

STRATEGIC REPORT

Property and Finance Review continued

Underlying financial performance

	Total £000	Investment/ development £000	Trading properties £000	Other items £000
2014				
Rental income	21,141	21,141	—	—
Property outgoings	(1,025)	(1,025)	—	—
Net rental income	20,116	20,116	—	—
Sale of trading properties	45	—	45	—
Property outgoings on trading properties	(17)	—	(17)	—
Net income from trading properties	28	—	28	—
Administration expenses	(3,232)	(3,232)	—	—
Operating profit before net gains on investment	16,912	16,884	28	—
Net gains on revaluation	27,590	—	—	27,590
Profit on disposal of investment and development properties	271	—	—	271
Operating profit	44,773	16,884	28	27,861
Gross finance costs	(3,978)	(3,978)	—	—
Capitalised interest	10	—	—	10
Fair value movement on derivative financial instruments	(103)	—	—	(103)
Total finance costs	(4,071)	(3,978)	—	(93)
Total finance income	1	1	—	—
Profit before tax	40,703	12,907	28	27,768
2013	£000	£000	£000	£000
Rental income	20,398	20,398	—	—
Property outgoings	(559)	(559)	—	—
Net rental income	19,839	19,839	—	—
Sale of trading properties	—	—	—	—
Property outgoings on trading properties	(2)	—	(2)	—
Net expenditure on trading properties	(2)	—	(2)	—
Administration expenses	(2,997)	(2,997)	—	—
Operating profit/(loss) before net gains on investment	16,840	16,842	(2)	—
Net gains on revaluation	2,770	—	—	2,770
Profit on disposal of investment and development properties	92	—	—	92
Operating profit/(loss)	19,702	16,842	(2)	2,862
Gross finance income	87	87	—	—
Fair value movement on derivative financial instruments	22	—	—	22
Total finance income	109	87	—	22
Total finance costs	(3,465)	(3,465)	—	—
Profit before tax	16,346	13,464	(2)	2,884

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 Group financial statements.

Redfern Park Way

Location:

Tyseley

Acquired:

March 2014

Lettable Space:

36,000 sq ft

Purchase Cost:

£1.48m

Refurbishment Cost:

£0.16m



Net assets

Net assets have increased by £42.5m due to the £27.7m revaluation of the investment and development properties and the £13.8m raised, net of costs, from the placing in March 2014.

We issued 2,900,000 Ordinary shares at a price of 490p each on 4 March 2014, raising £14.2m (gross) in order to fund the development of the pre-let industrial/warehouse unit at Worcester and the redemption of the Group's 11.5% Debenture Stock on 1 July 2014.

The uplift in valuation of the properties, the funds raised from the placing and the sale of Century House have led to a decrease in gearing to 30% (2013: 41%) or loan to value of 22% (2013: 28%) at our financial year-end.

Financing, cash flow and going concern

The Group continues to generate a strong cash flow from its property assets, with net operating cash flow increasing by £0.5m to £13.32m in the year and net capital expenditure on property assets increased by 11%, from £6.0m to £6.6m.

STRATEGIC REPORT

Property and Finance Review continued

	2014 £000	2013 £000
Net cash generated from operations	16,944	15,963
From investment and development properties	16,916	15,963
From trading properties	28	—
Net interest paid	(3,626)	(3,116)
Taxation	6	(15)
Operating cash flow	13,324	12,832
Property acquisitions	(10,498)	(6,048)
Property disposals	3,885	92
Net expenditure on property, plant and equipment	(10)	(132)
Movement in borrowings	(2,500)	5,244
Share issue	13,768	16
Payments for derivative financial instruments	—	(313)
Equity dividends	(12,239)	(11,645)
Net movement in cash	5,730	46

Following the repayment of the Group's 11.5% Debenture Stock on 1 July 2014, the Group's available facilities consisted of:

Borrowing	Expiry year	Available £m	Drawn £m	Undrawn £m
HSBC overdraft	2014	1.0	—	1.0
HSBC Revolving Credit Facility	2018	44.0	9.5	34.5
HSBC term loan	2018	20.0	20.0	—
Lloyds 15 year term loan	2023	20.0	20.0	—
Lloyds 10 year term loan	2022	20.0	20.0	—
Preference shares	—	0.7	0.7	—
		105.7	70.2	35.5

The repayment of the Debenture Stock has reduced our average cost of debt for our drawn term debt facilities to 4.5% (or 4.0% for our total term debt facilities), compared to the 4.8% (4.3% on total debt facilities) reported last year. The weighted average term remaining is 6.5 years, or 5.6 years on total debt facilities.

Of the total debt of £105.7m shown above, £40.7m is at fixed rates. All of the remaining drawn debt of £29.5m (post the Debenture Stock redemption) is at floating rate, fully covered by interest rate caps.

Analysis of borrowings at 30 June 2014

	2014 £000	2013 £000
11.5% First Mortgage Debenture Stock 2014	4,203	4,203
Preference Share Capital	675	675
Cash and short-term deposits	(6,992)	(1,262)
Lloyds Term Loan 2023	19,962	19,958
Lloyds Term Loan 2022	19,672	19,633
HSBC term loan 2018	19,733	19,660
Borrowings from revolving credit facility	9,500	12,000
Net Debt and Preference Share Capital	66,753	74,867
Net Assets	224,971	182,479
Gearing (net of cash)	30%	41%

As at 30 June 2014 the Group had £35.5m of undrawn banking facilities and had drawn down £9.5m from its HSBC £44m 2018 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 gearing level of 30% and £93.6m 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.

Outlook

The reduction in gearing to 30%, well within our self-imposed gearing limit of 50%, and £35.5m of undrawn facilities provides us with significant headroom. We continue to look for opportunities to increase our rent roll.

Justin Parker

Managing Director
2 September 2014

David Wooldridge

Finance Director
2 September 2014

Tewkesbury Road, Cheltenham



STRATEGIC REPORT

Principal Properties

as at 30 June 2014

Industrial	Area sq ft
Access Point, Leamington Spa	48,147
Amber Way, Halesowen	61,933
Bewdley Road, Stirchley, Birmingham	54,220
Birchley Island, Oldbury	41,534
Bull Ring Trading Estate, Birmingham	69,054
Camp Hill, Birmingham	124,270
Coleshill Trading Estate, Birmingham	185,624
Coleshill Trade Park, Birmingham	31,993
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, Birmingham	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
Long Acre Trading Estate, Birmingham	61,640
Middlemarch, Coventry	45,092
Milton Point, Milton Keynes	41,126
Mucklow Hill Trading Estate, Halesowen	97,254
Neo Park, Tyseley, Birmingham	55,139
Redfern Industrial Park, Tyseley, Birmingham	41,499
Redfern Park Way, Tyseley, Birmingham	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, Apex 6 Business Park, Worcester	18,606
Apex Park, Worcester	28,080
Aztec West, Bristol	31,256
Compton Court, Coventry	15,790
Concorde House, Trinity Park, Solihull	24,125
Dukes Gate, Chiswick, London	17,761
Mucklow Office Park, Mucklow Hill, Halesowen	34,703
Oak Tree Court, Binley Business Park, Coventry	30,000
Quinton Business Park, Birmingham	23,154
309 Reading Road, Henley-on-Thames, Oxon	12,121
60 Whitehall Road, Halesowen	20,856

Retail

Birchley Island, Oldbury	56,181
131/148 High Street, Bordesley	12,000
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

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 regularly reviewed by the Board, based on reports from management, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

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.

Key risk areas for the Group

Risk Area	Mitigation
Investment portfolio <ul style="list-style-type: none"> › Tenant default › Change in demand for space › Market pricing affecting value 	<ul style="list-style-type: none"> › 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
Financial <ul style="list-style-type: none"> › Reduced availability or increased cost of debt finance › Interest rate sensitivity › REIT compliance 	<ul style="list-style-type: none"> › Low gearing policy › Large, unencumbered property portfolio available as security › Existing facilities sufficient for spending commitments › Fixed rate debt and hedging in place › Internal procedures in place to track compliance
People <ul style="list-style-type: none"> › Retention/recruitment 	<ul style="list-style-type: none"> › Key man insurance › Remuneration structure reviewed › Regular assessment of performance
Development <ul style="list-style-type: none"> › Speculative development exposure on lettings › Cost/time delays on contracts › Inability to acquire land › Holding too much development land 	<ul style="list-style-type: none"> › 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

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 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 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 under review.

Due to the small number of employees in the Group and the geographic focus of the business, no strategic targets are set by the Board in this area.

Equality and diversity

As at 30 June 2014, the composition of the Group's employees, including both Executive and Non-Executive Directors, was as follows:

	Male	Female
Directors (including Non-Executives)	6	—
Senior Management	4	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.

Corporate and Social Responsibility continued

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.

We have introduced procedures to reduce the waste produced by the Group, including incentives for Company car drivers to move to more CO₂ efficient vehicles and reducing the volume of paper used.

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 Turnbull Committee meetings. Justin Parker 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.

Development of Apex Park, Worcester

The Apex Park scheme is being developed with due consideration for both ecological and sustainability considerations for a brownfield development site and has been designed to achieve a very good BREEAM rating. The existing SSSI area of the overall Apex site has been enhanced with the creation of an additional pond to assist wildlife.

The concrete demolition material from the previous building and all of the associated yards has been crushed and graded for reuse on site in order to reduce the need for new quarried materials and the positioning of the building on the site has been raised by approximately 300mm to negate the need to export any materials off site as part of the reconstruction costs.

The insulation values for the roof and walls have been increased in thickness to enhance the achieved U values for the building. This provides a much improved stable environment and reduces heating and energy costs.

LED lighting has been incorporated to all external areas of the building and all areas of the building will have absence detection to switch off the lighting.

The offices will be heated and cooled with high efficiency heat pumps.

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's health and safety policy is reviewed annually by external consultants. A health and safety committee, chaired by the Managing Director, meets quarterly to consider any issues arising.

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 2014 appear in the table below. As this is the first year the Company has been required to report the information, there is no comparison for the prior year.

Sources of greenhouse gas emissions		2013/14 tCO ₂ e
Scope 1		
Gas, refrigerants and car fuel		86
Scope 2		
Landlord controlled electricity		308
Total footprint		394
Intensity measure		kWh/ tCO ₂ e
Emissions per sq ft		0.0056

We have used the operational control method to reflect our influence over energy consumption. Tenants usage or emissions are not included as we do not have control over those items. Emissions from vacant space have been included.

The emissions factors and conversions used is the DEFRA greenhouse gas reporting tool.

Donations

No political contributions were made during the year (2013: nil) and donations to local and national charities amounted to £1,525 (2013: £4,449).

In June 2014 the Group agreed to contribute £10,000 to a local community project to help purchase a historic walled garden in a grade 1 listed park in Halesowen. Hales Owen Abbey Trust plans to apply for lottery funding in order to restore the garden and open it to the public. The 18th century feature in Leasowes Park, Mucklow Hill, is close to the Group's head office, as well as a number of its investment property holdings. The payment will be made in the 2015 financial year and will be included in the donations amount for that year.

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 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.

Strategic report approval

The strategic report, outlined on pages 03 to 23, incorporates the Chairman's statement, property and finance review, principal risks and uncertainties, and corporate and social responsibility.

By order of the Board

David Wooldridge

Company Secretary
2 September 2014



Governance

Chairman's Introduction to Governance	25
Board of Directors	26
Professional Advisers and Senior Management	27
Statement of Corporate Governance	28
Audit Committee Report	33
Board Report on Directors' Remuneration	36
Directors' Report	54

**Rupert Mucklow**

Chairman

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.

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation. Stephen Gilmore, Chairman of the Remuneration Committee, reports in his introduction on page 36 how the approach taken to executive director remuneration aligns the remuneration of the Managing Director and Finance Director with shareholder value creation.

I look forward to meeting you at our annual general meeting on Tuesday 11 November 2014.

Rupert Mucklow

Chairman

2 September 2014



Board of Directors



Rupert Mucklow BSc

Chairman[‡]

Aged 51

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 49

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 42

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

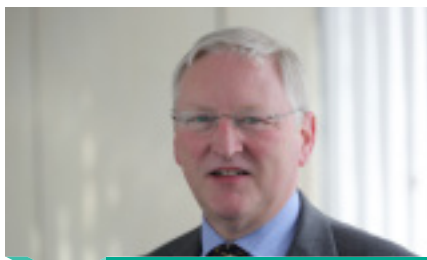


Paul Ludlow

Senior Independent Non-Executive^{*†‡}

Aged 68

Appointed to the Board in 2007. Paul was Managing Director of Severn Trent Property Ltd until the sale of the business to ProLogis.



Stephen Gilmore LLB

Independent Non-Executive^{*†‡}

Aged 59

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.



Jock Lennox LLB CA

Independent Non-Executive^{*†‡}

Aged 58

Appointed to the Board in 2010. A non-executive director at Enquest plc, Hill & Smith Holdings plc, Oxford Instruments plc, Dixons Carphone plc and a trustee of the Tall Ships Youth Trust. Jock was formerly a Partner of Ernst & Young where he began his career in 1977, becoming a Partner in 1988. Chairman of the Audit Committee.

* Member of the Remuneration Committee.

† Member of the Audit Committee.

‡ Member of the Nomination Committee.

Professional Advisers

Registered Office

60 Whitehall Road
Halesowen
West Midlands, B63 3JS
Tel: (0121) 550 1841
Fax: (0121) 550 7532
Website: www.mucklow.com
Company No. 717658

Stockbrokers

Arden Partners plc
Arden House
Highfield Road
Edgbaston
Birmingham, B15 3DU

Oriel Securities Limited

150 Cheapside
London, EC2V 6ET

Auditor

Deloitte LLP
Four Brindleyplace
Birmingham, B1 2HZ

Bankers

HSBC Bank plc
120 Edmund Street
Birmingham, B3 2QZ

Lloyds Bank Commercial Banking

125 Colmore Row
Birmingham, B3 3SF

Corporate Advisers

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

Property Valuers

DTZ Debenham Tie Leung Limited
No.1 Colmore Square
Birmingham, B4 6AJ

Registrars

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

Solicitors

Wragge Lawrence Graham & Co LLP
Two Snowhill
Birmingham, B4 6WR

Pinsent Masons LLP

3 Colmore Circus
Birmingham, B4 6BH

Senior Management

David Folkes MCIOB

Residential Land/Development

Stuart Haydon MRICS

Portfolio Manager

Gemma Lane ACMA CGMA

Company Accountant

David Tuft

Property Manager

Mark Vernon MRICS

Investment

Statement of Corporate Governance



Rupert Mucklow
Chairman

UK Corporate Governance Code

The Company has complied with the Code provisions set out in the UK Corporate Governance Code throughout the year ended 30 June 2014. 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 Board

For the whole of the year under review, the Board comprised three executive directors: Rupert Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director), and three non-executive directors: Paul Ludlow (Senior Independent Non-Executive), Stephen Gilmore and Jock Lennox.

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 eleven 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.

Paul Ludlow was appointed as a non-executive director on 1 March 2007. The Board has considered Mr Ludlow'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.

Jock Lennox was appointed to the Board on 1 December 2010. The Board has considered Mr Lennox'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 consider 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.

All directors are required to submit themselves for re-election every three years, or at the first Annual General Meeting following their appointment.

Rupert Mucklow, Stephen Gilmore and Jock Lennox are seeking re-election as directors at the 2014 Annual General Meeting.

Rupert Mucklow (51), Chairman, joined the Group in 1990, was appointed an executive director in 1995, Managing Director in 1996, Deputy Chairman in 2001 and Executive Chairman in 2004.

Stephen Gilmore (59) was appointed a non-executive director on 13 May 2008, having previously been partner in charge of the Birmingham office of Cobbetts LLP.

Jock Lennox (58) was appointed to the Board on 1 December 2010. He retired as a partner of Ernst & Young in April 2009 and holds a number of other non-executive director positions in quoted 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 2014 is as follows:

Number held	Board	Audit	Remuneration	Nomination
Rupert Mucklow	11/11	n/a	n/a	0/0
Justin Parker	11/11	n/a	n/a	n/a
David Wooldridge	11/11	n/a	n/a	n/a
Paul Ludlow	11/11	3/3	3/3	0/0
Stephen Gilmore	11/11	3/3	3/3	0/0
Jock Lennox	9/11	3/3	3/3	0/0

n/a indicates not a member of that committee.

Statement of Corporate Governance continued

Board Committees

The Board has three subcommittees, the Audit Committee, the Remuneration Committee and the Nomination Committee. Jock Lennox 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

Jock Lennox has been designated as the member of the Audit Committee with recent and relevant financial experience, being a chartered accountant and former partner of Ernst & Young. He is also chair of the audit committees of Dixons Carphone plc, Enquest plc, Hill & Smith Holdings plc and Oxford Instruments 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 33 to 35.

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

Remuneration Committee

The Remuneration Committee comprised Stephen Gilmore (Chairman), Paul Ludlow (Senior Independent Non-Executive) and Jock Lennox for the year ended 30 June 2014. 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 36 to 53.

Nomination Committee

The Nomination Committee comprised Rupert Mucklow (Group Chairman), Paul Ludlow (Senior Independent Non-Executive), Stephen Gilmore and Jock Lennox for the 2014 financial year.

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.

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.

Shareholders

The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received either orally 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 Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

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;
- ▶ 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 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 Justin Parker (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 areas of improvement which come to management's and the Board's attention.

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

Statement of Corporate Governance continued

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 income statement, 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 which operates 20 PCs. 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 the necessary 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.

**Jock Lennox**

Chairman of the Audit Committee

Audit Committee Report

Dear Shareholder,

Welcome to the Report of the Audit Committee.

Throughout the year the Committee has consisted of the three independent non-executive directors, including myself as Chairman.

The Committee meets regularly during the year to monitor the integrity of the Group's financial statements and is also responsible for the appointment, performance and independence of the external auditor. We have also considered the Board's additional requirement under the UK Corporate Governance Code to state whether, in the Board's opinion, the Annual Report is fair, balanced and understandable. In providing support to the Board in making this statement, the Audit Committee have reviewed and approved a process undertaken by management to provide confirmation to the Board.

The Audit Committee is mindful of the transitional arrangements of the UK Corporate Governance Code and proposed EU legislation in relation to auditor appointment and restrictions on the level of non-audit fees paid to, and services performed by, the external auditor, and continues to monitor developments and the Group's policy for non-audit services provided by the external auditor. An audit tendering policy suitable for the Group's size and FTSE position will be introduced when there is certainty over the final requirements that will be applicable to the Group.

Jock Lennox

Chairman of the Audit Committee

2 September 2014

Audit Committee Report continued

Composition of the Audit Committee

The Audit Committee comprised Jock Lennox, Paul Ludlow and Stephen Gilmore for the year under review.

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 performance, business model, strategy and risks;
- ▶ 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 29.

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

2014 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;
- ▶ Reviewing the need for an internal audit function; and
- ▶ Reviewing the appointment of the external Auditor as auditor and tax advisers.

Primary areas of judgement in relation to the 2014 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.

The valuation of the Group's property portfolio, £297.9m at 30 June 2014, is fundamental to the Group's balance sheet and reported results. The external auditor meets with the valuer separately from the Audit Committee, using real estate specialists where applicable, and reports back to the Committee on their review. The Committee also gains comfort from the valuer's methodology and other supporting market information. Members of the Committee attend the meeting of the valuer and external auditor on a regular basis.

Although covenant compliance is a matter for the whole Board, and the Group remains lowly geared at 30%, the Committee consider reports to support the Group's going concern 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.

Risk management

The whole Board reviews internal controls and further details are included in the Governance Report on page 31.

A summary of the key risks and uncertainties to which the business is exposed is set out on page 20.

Internal audit

No internal audit function is considered necessary because of the size 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 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 Deloitte LLP and the internal independence policies of Deloitte LLP. The Committee does not consider that there is any risk to the independence or objectivity of the audit.

The review of the 2013 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 were satisfied that the external auditor, Deloitte, continued to perform effectively.

Non-audit fees paid to Deloitte LLP in respect of the financial year ended 30 June 2014, being taxation compliance and advisory fees, represent 77% of the audit fee (including the half-year review).

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 non-audit fee policy has been adopted by the Audit Committee, who consider the appointment of the external Auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees.

Given the external Auditor's detailed knowledge of the structure and history of the organisation, certain services provided by them, subject to the amount of fee involved, are not considered to impair the external Auditor's independence or objectivity. Services included in this category are: accounting advice; due diligence in connection with proposed acquisitions, disposals or corporate transactions; tax compliance and advisory; reporting accountant work; compliance and regulatory certificates; and minor projects, where the fee involved will not exceed £10,000.

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

The Committee will not normally allow the external Auditor to be used for any of the following services to the Group: compiling accounting records; internal audit services; IT consultancy; Remuneration Committee advice; valuation work (including Deloitte Real Estate); and work on internal controls.

Deloitte LLP were appointed as the Company's Auditor for the year ending 30 June 1996 and were reappointed following a tender in 2007. The external Auditor is required to rotate the audit partner responsible for the Group and

subsidiary audits every five years. The lead audit partner for the 30 June 2010 audit had been in place for five years. A new audit partner took over for the 2011 year-end. There are no contractual obligations restricting the Company's choice of external Auditor. The Committee has recommended to the Board that the existing Auditor, Deloitte LLP, be reappointed.

Having reviewed the independence and effectiveness of the external Auditor, the Committee have not considered it necessary to require them to tender for the audit work since 2007. Under the Financial Reporting Council's transitional arrangements the Company is required to re-tender, at the latest, by 30 June 2024. The Committee's current intention is to re-tender well within the timeframe set by the Financial Reporting Council.

Deloitte LLP has signified their willingness to continue in office and ordinary resolutions reappointing them as Auditor and authorising the Audit Committee to set their remuneration will be proposed at the 2014 AGM.

As Audit Committee Chairman, I have regular 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 is the first Directors' Remuneration Report (Remuneration Report) that the Company has published in the new format following the implementation of The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, although many of the mandatory changes were adopted by the Company voluntarily in last year's report. This is also the first year in which shareholders are given the opportunity to vote separately on our Directors' Remuneration Policy and on this statement and the Annual Report on Remuneration, which deals with how the Remuneration Policy has been implemented in the year ended 30 June 2014 (2013/2014). The vote on the Directors' Remuneration Policy is binding upon the Company but the vote on the Chairman's Statement and Annual Report on Remuneration is advisory only.

In my role as chairman of the Remuneration Committee, I regard the level of support for both our Remuneration Policy and the Remuneration Report as prime indicators of the level of shareholder satisfaction the Company has delivered in 2013/2014. The vote on last year's Remuneration Report was overwhelmingly in favour and I hope that this year's votes on both the Remuneration Policy and the Remuneration Report will attract comparable support.

Ethos

The delivery of consistent, sustainable shareholder returns is what we believe our shareholders expect from the Company and it is what the Company has historically delivered. Our goal is to continue to fulfil those shareholder expectations. To help us to achieve that goal, it is essential that the Remuneration Policy meets two principal criteria: first, it must enable the Company to recruit and retain executives who are capable of performing at the levels required; secondly

it must ensure that the performance-related element of executive remuneration closely aligns executive interests with shareholder interests. We are of the view that the performance-related element of executive remuneration should be concentrated almost entirely within our Performance Share Plan which was adopted by the Company in 2007 (LTIP). The LTIP measures performance over a three year rolling cycle. This has the dual advantages of ensuring that the participating executives benefit from the plan if shareholders benefit, and encouraging executives to stay with the Group to reap the fruits of their labours over the three year period. The two executive directors who participate in the LTIP have benefitted substantially from their awards this year, their significant increases in remuneration being largely down to their LTIP awards as can be seen from the table on page 47. I say more about the operation of the LTIP below.

The Remuneration Committee remains of the view that annual cash bonuses do not contribute to the alignment of executive and shareholder interests, being essentially short-term in nature and not reflective of what the Company actually does: the Company's revenues are mainly derived from long-term investments and developments, not short-term dealing. However, because the Company retains the discretion to award annual cash bonuses, the statutory requirements applicable to the Remuneration Report mean that it has a number of references to the "Annual Cash Bonus Plan". The reality is that such bonuses have not been paid for many years. The maximum benefit table on page 44 records theoretical maximum amounts payable to executive directors which, because of our approach to cash bonuses, are very unlikely to be paid. In my last letter to you I said that the Remuneration Committee did not foresee circumstances in which it would exercise its discretion to pay cash bonuses; that remains the case. By way of example, this year the

Company raised an additional £13.8m in equity by means of a placing and experienced a revaluation in the property portfolio of £27.7m both of which contributed substantially to balance sheet growth but which did not result in the payment of any bonuses.

Whilst it is fair to say that the investment and development policy pursued by the Group over the period since it became a REIT has resulted in the high quality portfolio that the Group now owns, nevertheless the value of the portfolio is not really a matter within the control of the executives. The Remuneration Policy focuses on those matters which the executives are able to control and which deliver shareholder value through dividend growth. This year has seen prudent investment in new properties, investment in the improvement of our existing portfolio and the start of development of the new Worcester Bosch facility, all of which are expected to enhance shareholder value in the medium term. There have also been some strategic disposals as part of the continuing process of managing our portfolio and enhancing its value in the longer term. Quite rightly, the executives will earn their rewards through the LTIP, when it is clear that what we expect to be achieved has actually been delivered.

Policy

There are two principal elements to executive director remuneration, namely the pay and benefits package and the LTIP.

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 required performance. We last benchmarked executive director remuneration packages against comparable businesses in 2010 when

they were independently reviewed by remuneration consultants. Executive directors' basic remuneration was increased in 2013/14 in line with the increase in Ordinary dividend.

This year two of our directors (Rupert Mucklow and Justin Parker) reached the current cap on pensions, which means that some or all of the director's pay which was made up of pension contributions can no longer be paid into their pension schemes. The Company's policy in these circumstances is to make a payment to the director concerned in lieu of their pension contribution. The payment (net of employer's National Insurance contributions) will not exceed the amount that would have been paid into the pension scheme, so the cost to the Company is neutral.

The details of each director's pay and benefits package is set out at page 47. The Remuneration Committee believes that the executive directors' pay and benefits packages reflect market conditions and are appropriate to the Group's FTSE position.

Long-Term Incentive Plan

I believe that at this point it may be helpful to remind shareholders how the LTIP operates, especially in the light of the substantial benefits received from the LTIP by Justin Parker and David Wooldridge as disclosed in the table at page 38.

First, an executive is granted an option to subscribe for shares at nominal value (25p per share). The number of shares comprised in each option is determined by reference to the market value of shares

when the option is granted. Shares equal in value to up to 75% of the executive's base salary calculated using the market value of the shares may be subject to the option. 3 years later, if performance criteria are met, the option becomes exercisable in respect of some or all of the shares comprised in the option, the exact number depending upon the level of performance. Performance is determined by the Company's position within the comparator group of companies, ranked by total shareholder return over the preceding 3 years. The number of shares over which the option can be exercised is calculated on a sliding scale from 20% where the performance is at the median of the comparator group, up to 100% if the performance is in the top decile of the comparator group. Options are normally exercised within a short period of vesting.

In addition to assessing the position of the Group within the comparator group when allowing options to be exercised, the Remuneration Committee also has to be satisfied that the Group has achieved sound underlying financial performance over the performance period. In this way a very substantial element of executive director remuneration is closely allied to shareholder interests over the longer term.

That is a fairly complex description, so to illustrate the way that the LTIP works in practice, I have set out in the table below the calculations used for the purposes of the LTIPs vesting in the 2013 and 2014 financial years.

Board Report on Directors' Remuneration

continued

	Justin Parker Option Exercise Year		David Wooldridge Option Exercise Year	
	2012	2013	2012	2013
Base Salary when option granted (A)	£218,400	£248,400	£140,000	£143,500
Share price (in pence) when Option granted (B)	312	291	312	291
Number of shares over which option may be exercised (75% x A ÷ B)	52,500	64,021	33,654	36,985
Total shareholder return in performance period	52.64%	85.51%	52.64%	85.51%
Position in comparator group* in performance period	8th of 37	2nd of 14	8th of 37	2nd of 14
Number of shares over which option can be exercised (C)	38,498	53,349	24,678	30,820
Share price (in pence) when option exercised (D)	356	502	356	502
Value of shares when option vests and is exercised (D x C) (E)	£137,053	£267,812	£87,854	£154,716
Subscription price (C x 25p) (F)	(£9,625)	(£13,337)	(£6,170)	(£7,705)
Value of option to executive (E-F)	£127,428	£254,475	£81,684	£147,011

* As mentioned in last year's annual report, the index used was changed from the FTSE All Share Real Estate Sector to the FTSE REITs Sector to make a more accurately focused comparison.

Shareholders will see from the table that an increase in share price between date of grant and date of exercise of an option enhances the value of an LTIP award. In November 2012, options granted in 2009 at a share price of 312p paid out at 356p, a gain of 44p per share. This contrasts with November 2013, when the options granted in 2010 at a share price of 291p paid out at 502p, a gain of 211p per share. The enhanced value of the award to the executive as a result of increases in share price is clear from the table.

We anticipate that executives will sell enough of the shares resulting from their options to pay the subscription price and taxes associated with the exercise of the option, but otherwise we expect them to retain at least 25% of the shares.

Executive directors are expected to build up a shareholding in the Company equivalent in value to their basic salary. Both Justin Parker and David Wooldridge have achieved this objective, helped in good measure by the increase in the share price over the last 12 months. If an executive sells his/her LTIP derived shares, any gain is subject to tax.

Other work of the Remuneration Committee

As well as determining the pay and benefits packages of the executive directors and making and vesting awards under the LTIP, the Remuneration Committee offers guidance to the executive directors in relation to pay policy within the Group generally.

The Remuneration Committee has approved amendments to the Share Incentive Plan to retain the maximum flexibility allowed by changes in legislation. The maximum value has been increased from £1,500 to £1,800 for partnership and matching shares and from £3,000 to £3,600 in respect of free shares and the Remuneration Committee now has the ability to make awards to employees up to this maximum value. The Remuneration Committee has not yet decided whether or not to exercise this enhanced power as no awards have been made since the rules were changed.

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. Following a review carried out by the executive directors, non-executive remuneration has been increased from £27,186 to £35,000 per annum, which brings it into line with market rates, in accordance with the policy set out in the table on page 45. I understand from the Chairman that the executive directors do not expect to make any changes to non-executive remuneration during the 3 year period of the Remuneration Policy, other than changes in line with those of other employees of the Company.

The future

The Remuneration Committee remains of the view that the LTIP is functioning as intended. The current LTIP comes to an end in 2017, and the Remuneration Committee will start considering whether it should be replaced in 2015, with a view to presenting a successor to the LTIP at the AGM in 2016. The Remuneration Committee will give particular consideration to whether there should be any additional performance criteria for vesting awards under the LTIP.

We welcome an open dialogue with our shareholders and I will be happy to receive comments or address queries regarding the Group's remuneration policy and the Remuneration Report which appears on the following pages.

Stephen Gilmore

Chairman of the Remuneration Committee
2 September 2014

Board Report on Directors' Remuneration

continued

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 proposed policy for the three years beginning on the date of the Company's 2014 AGM which is subject to a binding shareholder vote.

The Annual Report on Remuneration sets out the payments made and awards granted to the directors over the period 1 July 2013 to 30 June 2014 and how the Company intends to implement the policy in the period 1 July 2014 to 30 June 2015, which, together with the Chairman's Statement, is subject to an advisory shareholder vote.

The regulations require the Auditor to report to the Company's members as to whether in their opinion the part of the report which requires auditing has been properly prepared in accordance with the Companies Act 2006 as amended by the regulations. Sections that have been audited are marked as such. The remaining information within this report is unaudited.

Directors' remuneration policy

Remuneration principles

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

Remuneration policy is drawn up in accordance with Schedule A of the UK Corporate Governance Code.

Future policy table

A summary of the Company's remuneration policy, for three financial years starting in 2014/15, for directors is shown below. If the Directors' Remuneration Policy is approved at the AGM in November 2014, the approved policy will take effect from the date of the AGM.

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Base Salary	To attract, retain and motivate executives of the calibre to deliver the Company 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 with any increase taking effect from 1 July each year.	Base salaries will be in line with median salary levels in a peer group of similar-sized companies in the property sector in the area in which the Company operates. 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 except where there is any change in role or responsibility of the individual.	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 lifetime allowance or other cap 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: <ul style="list-style-type: none"> » 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.

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Cash bonus plan	To reward executives for exceptional performance on an infrequent basis.	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.	All executive directors are eligible to participate in the cash bonus plan. Maximum bonus: 60% of base salary Threshold payment is nil.	If the Committee resolved to pay a bonus in respect of any year, the following factors would be taken into account: <ul style="list-style-type: none"> financial performance in the year individual performance in the year successful achievement of long-term strategic objectives
Performance Share Plan (LTIP)	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 remuneration committee. Awards vest at the end of the three year performance period, to the extent that the performance conditions are met. Options can be exercised between the date of vesting and the seventh anniversary of the date of grant. Participants are not eligible for dividend equivalents.	Non-executive directors and Rupert Mucklow do not participate in the LTIP. Maximum shares granted: 75% of salary.	Vesting is subject to total shareholder return (TSR) vs. companies in the FTSE EPRA NAREIT UK index. Awards will not normally vest and be capable of exercise prior to the third anniversary of the date of grant. Upper decile: 100% of award will vest Upper quartile: 66.6% of award will vest Median: 20% of award will vest Below median: award will lapse Pro-rata in between median and upper quartile, and upper quartile and upper decile. Awards will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance.

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance conditions
Share incentive plan	All employee share plan to encourage employees to acquire shares in the Company to align with shareholders.	<p>Matching shares are offered on a 1:1 basis up to £1,500 (£1,800 from 1 November 2014).</p> <p>Free shares up to a maximum of £3,000 (£3,600 from 1 November 2014) are offered at the discretion of the Board.</p> <p>Use of the higher limits from 1 November 2014 is subject to the approval of the Committee.</p> <p>Unless a leaver, shares remain in the trust for at least 5 years. If a participant is a leaver within 5 years, shares are released subject to an income tax charge.</p>	<p>Executive Directors participate on the same basis as other employees.</p> <p>The maximum allocation of shares each year is:</p> <p>Partnership shares – £1,500 (£1,800 from 1 November 2014) or 3% of salary</p> <p>Matching shares – £1,500 (£1,800 from 1 November 2014)</p> <p>Free shares – £3,000 (£3,600 from 1 November 2014) or 3% of salary</p>	No performance conditions apply.
Shareholding expectation	To align executives' interests with those of shareholders.	<p>The shareholding can be built up over a reasonable time period and includes shares owned outright (including shares acquired on exercise of LTIP options and shares held in the SIP trust).</p> <p>Executive directors are expected to retain at least 25% of the shares acquired on the exercise of options under the LTIP.</p>	<p>Applies to directors participating in the LTIP.</p> <p>Expectation: 100% of salary</p>	No performance conditions apply.

Notes to the policy table

- Annual bonuses are only paid to Executive Directors in exceptional circumstances and are at the total discretion of the Committee.
- TSR was selected as a performance condition for the LTIP to align the vesting of the award with shareholders' interests. Targets are reviewed annually by the Remuneration Committee to ensure that they remain appropriately challenging and consistent with market practice.
- Other employees are remunerated on a basis similar to that of executive directors. All employees are entitled to participate in the SIP. All employees are considered for an annual cash bonus however 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 LTIP at the invitation of the Remuneration Committee. Bonus and LTIP levels are set by reference to grade and payment is at the discretion of the Board. Pension and benefits are also provided to all employees, with levels set by reference to grade.
- Arrangements or agreements entered into prior to 27 June 2012 shall be honoured notwithstanding that they are inconsistent with the remuneration policy set out above.

GOVERNANCE

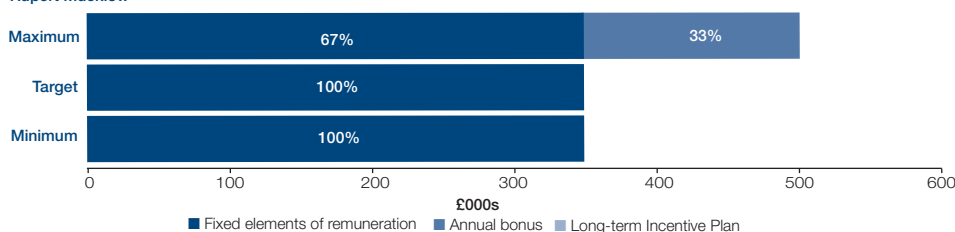
Board Report on Directors' Remuneration

continued

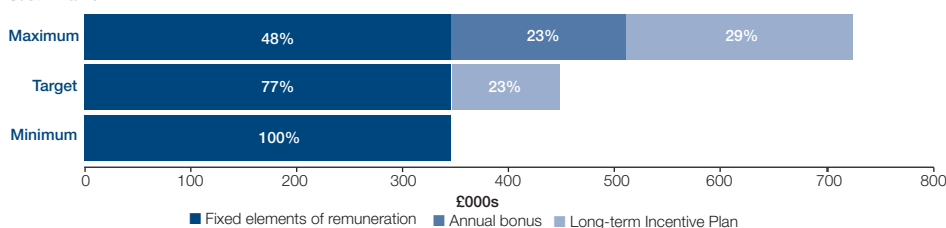
Illustration of application of remuneration policy

The charts below provide an indication of the remuneration outcomes for each executive director in the circumstances prescribed by the 2013 regulations, showing potential total remuneration at (i) maximum, (ii) on-target, and (iii) minimum performance levels.

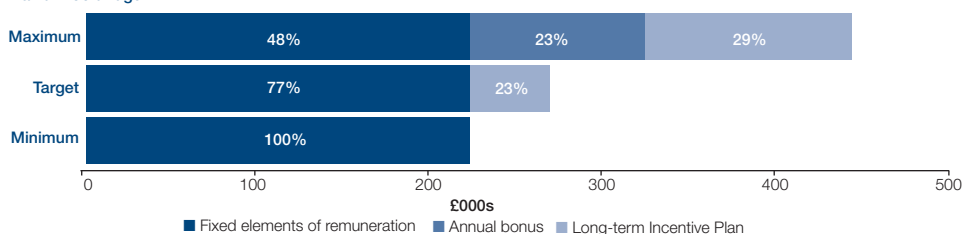
Rupert Mucklow



Justin Parker



David Wooldridge



The scenario charts assume:

- Fixed pay: base pay plus retirement benefits for the year ending 30 June 2015, plus the anticipated value of other benefits (assumed for this purpose to be the same as for the year ended 30 June 2014).
- Short-term incentives: maximum bonus paid at maximum performance and nil bonus paid for on-target and below on-target performance.
- Long-term incentives: top decile total shareholder return performance compared to the FTSE EPRA NAREIT UK index for maximum payout, and 50% of maximum payout for on-target performance, with no long-term incentives vesting for below on-target performance.
- No share price appreciation has been factored into these calculations.

Non-executive Directors' remuneration policy

Non-executive Directors' policy

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.	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 is 135% of salary being the maximum annual bonus of 60% of salary and an award of 75% of salary under the LTIP.

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 policy.

Board Report on Directors' Remuneration

continued

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	1 July 1997	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	3 October 2003	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	12 September 2007	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.

Director	Date of appointment or subsequent re-election	Re-election
Paul Ludlow	12 November 2013	Every 3 years
Stephen Gilmore	8 November 2011	Every 3 years
Jock Lennox	8 November 2011	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.

LTIP

Where the executive is a good leaver, the Committee would follow its normal policy in relation to bonuses, and would determine whether any unvested LTIP awards should vest in accordance with the rules of the Plan, but on the basis that benefits should generally be pro-rated for the period in question and the extent to which the performance conditions have been satisfied at the date of cessation. Options under the LTIP are normally 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.

Leavers other than good leavers will be considered on the merits of the particular case, taking into consideration the Company's legal obligations, the circumstances of the departure and any relevant performance issues relating to the executive concerned. The Company's general policy is not to make payments to leavers unless they are in the interests of the Company and the shareholders.

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

Statement of consideration of employment conditions elsewhere in 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. The Committee is not responsible for determining the remuneration of the wider employee population. The employees were not directly consulted on the directors' remuneration policy.

Statement of consideration of shareholder views

The Company received over 99% support for the remuneration report at the 2013 AGM and as there are no significant proposed changes to remuneration policy, has not consulted with shareholders during the year.

Annual report on remuneration

Single total figure of remuneration for each director (audited)

Directors' emoluments	Basic salary/ Fees 2014	Basic salary/ Fees 2013	Benefits in kind 2014 ⁱ	Benefits in kind 2013 ⁱⁱ	Bonus 2014 ⁱ	Bonus 2013 ⁱ	LTIP 2014 ^{iv}	LTIP 2013 ^{iv}	Pension 2014 ⁱⁱⁱ	Pension 2013 ⁱⁱⁱ	Total 2014	Total 2013
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive												
Rupert Mucklow	275	267	20	23	—	—	—	—	36	40	331	330
Justin Parker	270	262	32	33	—	—	254	127	40	39	596	461
David Wooldridge	173	168	21	19	—	—	147	82	26	25	367	294
Non-executive												
Paul Ludlow	27	26	—	—	—	—	—	—	—	—	27	26
Stephen Gilmore	27	26	—	—	—	—	—	—	—	—	27	26
Jock Lennox	27	26	—	—	—	—	—	—	—	—	27	26
Total	799	775	73	75	—	—	401	209	102	104	1,375	1,163

i) There were no bonus payments in either the current or prior year.

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

iii) Rupert Mucklow, Justin Parker and David Wooldridge are members of a defined contribution pension scheme. Rupert Mucklow's pension benefits are made up of pension contributions of £34,000 plus salary supplement of £2,000.

iv) Amount relates to LTIP grants made in October 2009 and October 2010 which vested in November 2012 and November 2013 respectively.

Board Report on Directors' Remuneration

continued

2009 and 2010 LTIP vesting (audited)

	Justin Parker Option Exercise Year		David Wooldridge Option Exercise Year	
	2012	2013	2012	2013
Number of shares over which option may be exercised	52,500	64,021	33,654	36,985
Total shareholder return in performance period	52.64%	85.51%	52.64%	85.51%
Position in comparator group in performance period	8th of 37	2nd of 14	8th of 37	2nd of 14
Number of shares over which option can be exercised	38,498	53,349	24,678	30,820
Share price (in pence) when option exercised	356	502	356	502
Value of shares when option vests and is exercised	£137,053	£267,812	£87,854	£154,716
Subscription price	(£9,625)	(£13,337)	(£6,170)	(£7,705)
Value of option to executive	£127,428	£254,475	£81,684	£147,011

All options are normally exercised as soon as practicable after vesting.

Scheme interests awarded during the financial year (audited)

Long-Term Incentive Plan ("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	44,427	£202,587	20% of shares will vest	6/10/2016
David Wooldridge	Nominal cost option	Annual award with performance conditions. Based on a percentage of salary	28,529	£130,092	20% of shares will vest	6/10/2016

Face value is based on a share price of 456p on the day prior to the date of grant.

Performance conditions

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

Awards will not normally vest and be capable of exercise prior to the third anniversary of the date of grant.

Vesting schedule:

Upper decile: 100% of award will vest

Upper quartile: 66.6% of award will vest

Median: 20% of award will vest

Below median: award will lapse

Pro-rata in between median and upper quartile, and between upper quartile and upper decile.

Awards will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance. Participants do not receive dividend equivalents.

Share Incentive Plan (audited)

The Group currently operates an HM Revenue & Customs approved all employee Share Incentive Plan. During the year each executive director received 1,434 Ordinary shares, with a value of £7,185 at a cost to each executive director of £1,500 (excluding tax relief). Non-executive directors are not eligible for the scheme.

Payments to past directors (audited)

There were no payments to past directors in the year ended 30 June 2014.

Payments for loss of office (audited)

There were no payments for loss of office in the year ended 30 June 2014.

Statement of directors' shareholding and share interests (audited)

Particulars of the directors' shareholdings in the Ordinary share capital of the Company are shown below. There were no other movements in any of the directors' shareholdings between 1 July 2014 and 2 September 2014.

None of the directors had any beneficial interest in the Company's Preference shares or Debenture Stock at either 30 June 2014 or 2 September 2014.

			30 June 2014		
			Shares held as % of salary	Unvested options with performance conditions	Total share interests
Ordinary shares	Shareholding expectation	Shares held outright			
Rupert Mucklow	—	727,885			727,885
Justin Parker	100% of salary	71,565	113%	164,129	235,694
David Wooldridge	100% of salary	71,017	174%	105,397	176,414
Paul Ludlow	—	2,861			2,861
Stephen Gilmore	—	—			—
Jock Lennox	—	3,500			3,500
Total		876,828		269,526	1,146,354

GOVERNANCE

Board Report on Directors' Remuneration

continued

The share price at the year-end was 425p.

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
October 2011	305p	62,609	40,205
October 2012	345p	57,093	36,663
October 2013	456p	44,427	28,529

Options exercised in year Options over ordinary shares

Director	No. of options exercised in year	Exercise price (pence)	Market value at date of exercise (pence)	Gain on exercise £
Justin Parker	53,349	25	502	254,475
David Wooldridge	30,820	25	502	147,011
Total	84,169			401,486

Justin Parker retained 16,005 shares and David Wooldridge retained 10,787 shares.

Movement in Executive Directors' ordinary shares

Director	Shares held outright 30 June 2013	Retained from option exercise	Acquired under SIP	Shares held outright 30 June 2014
Justin Parker	54,126	16,005	1,434	71,565
David Wooldridge	58,796	10,787	1,434	71,017

Performance graph and table

Total shareholder return

Mucklow (A&J) Group PLC - Annual Return on Investment



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 Long-term Incentive Plan. Arden Partners plc prepared the graph based on underlying data provided by Thomson Financial – Thomson One Banker.

Presented below is a table setting out details in respect of the remuneration paid to the director undertaking the role of chief executive officer in the preceding five years.

Year ended 30 June	2010	2011	2012	2013	2014
Total Remuneration (£000)	271	430	486	461	596
Bonus as a percentage of maximum	0%	0%	0%	0%	0%
LTIP as a percentage of maximum	0%	78%	89%	73%	83%

Percentage change in remuneration of director undertaking the role of chief executive officer

Presented below is a table setting out a comparison of the change in amounts paid to the director undertaking the role of chief executive officer and the change in amounts paid to the wider employee population between 2012/13 and 2013/14. For the purpose of this table, the employee group includes all employees of the group. The Managing Director's taxable benefits have decreased due to a lower level of car benefit.

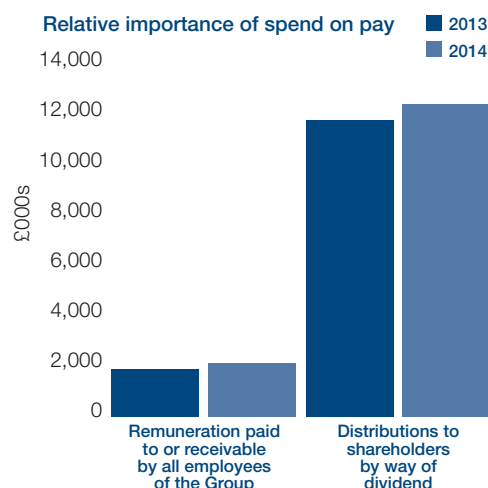
	Managing Director percentage change	Employee group percentage change
Salary	3%	3%
Taxable benefits	—4%	2%
Annual bonus	n/a	n/a

Board Report on Directors' Remuneration

continued

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 increased by 2.4% year on year whilst distributions to shareholders by way of dividend increased by 5.4%. This reflects the fact that our reward model is heavily weighted towards fixed pay, which has only increased in line with inflation, throughout the Company.

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

The Remuneration Committee currently consists of three non-executive directors: Stephen Gilmore as Chairman, Paul Ludlow and Jock Lennox. 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.

No remuneration consultants were used by the Committee during the year under review.

Statement of voting at general meeting

Presented below is a table setting out details of the vote on the 2013 remuneration report as cast at the 2013 AGM.

	For	Against	Abstain
% of votes	99.98%	0.02%	—
Number of votes	43,971,420	10,820	125,577

Statement of implementation of remuneration policy in the following financial year (2014/15)

With effect from 1 July 2014, the base salary of the executive directors increased by 3%, in line with all other employees in the group and in accordance with the policy set out in this report. The fees paid to Non-executive Directors increased to £35,000 per annum from the same date, to bring them into line with the market median, as set out on page 39 of this report.

In all other respects, the remuneration policy will be operated in accordance with the policy set out in this report.

Base salaries for Executive Directors with effect from 1 July 2014

Executive Director	Base Salary
Rupert Mucklow	£283,152
Justin Parker	£278,219
David Wooldridge	£178,661

Fees for Non-executive Directors with effect from 1 July 2014

Non-executive Director	Fees
Paul Ludlow	£35,000
Stephen Gilmore	£35,000
Jock Lennox	£35,000

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 2014. The Corporate Governance Statement set out on pages 28 to 32 forms part of this report.

Pages 04 to 23 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 2014, 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 2014 the principal activity of the Group is selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

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 £40.7m and the taxation charge was £Nil.

Ordinary dividends

On 30 June 2014, an interim dividend for the period ended 31 December 2013 of 9.04p per share was paid. A final dividend of 11.19p per share is proposed. The total dividend paid and proposed for the year will be 20.23p per share.

The final dividend, if confirmed, will be paid on 2 January 2015 to shareholders on the register at the close of business on 28 November 2014.

Future prospects

The future prospects are commented on in the Chairman's Statement on page 07.

Directors

The directors listed on page 26 constituted the Board during the year.

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.

Rupert Mucklow, Stephen Gilmore and Jock Lennox 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 49.

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% (2013: 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 12,429,727 (2013: 13,011,774) Ordinary shares, representing 19.65% (2013: 21.60%) of the issued Ordinary Share Capital.

In addition to the shares held by the Mucklow Concert Party, as at 5 August 2014 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	6.06
Anadius Investments Limited	3,671,149	5.80
Prudential plc [†]	3,091,717	4.89
Wesleyan Assurance Society [†]	3,020,000	4.77
Touchstone Investments Limited	2,106,373	3.33

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 Property and Finance Review on page 15 and in the accounting policies on page 69 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 Deloitte 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 2014

Other than the redemption of the Group's 11.5% Debenture Stock on 1 July 2014, at a cost of £4.2m, there were no material events since 30 June 2014 to report.

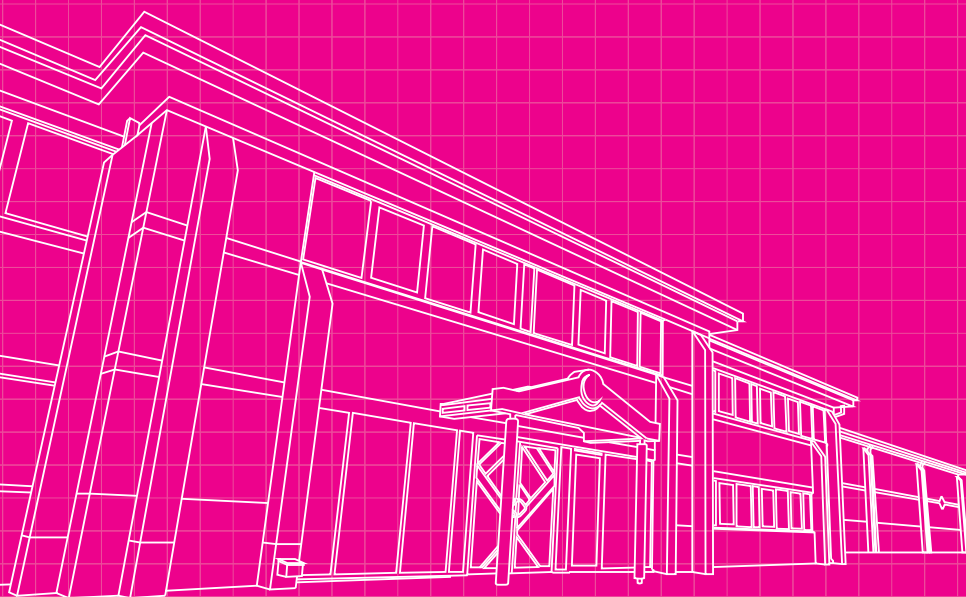
Annual General Meeting

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 11 November 2014 at 11.30am.

By order of the Board

David Wooldridge

Secretary
60 Whitehall Road, Halesowen,
West Midlands, B63 3JS
2 September 2014

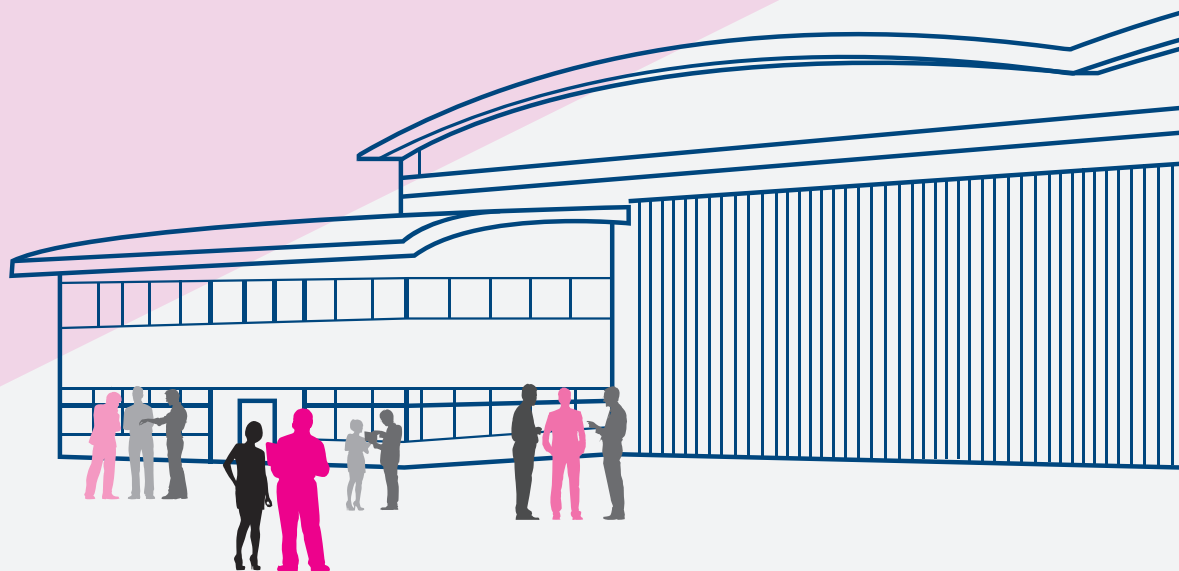


Financials

Directors' Responsibilities Statement	58
Independent Auditor's Report	59
Group Statement of Comprehensive Income	63
Statement of Changes in Equity	64
Group Balance Sheet	65
Parent Company Balance Sheet	66
Group Cash Flow Statement	67
Parent Company Cash Flow Statement	68
Notes to the Financial Statements	69

Notes to the Financial Statements Index:

Note 1	Accounting Policies	69	Note 16	Cash and Cash Equivalents	82
Note 2	Revenue	73	Note 17	Trade and Other Payables	83
Note 3	Property Costs	73	Note 18	Borrowings — Bank Overdraft	83
Note 4	Segmental Analysis	74	Note 19	Borrowings	83
Note 5	Profit for the Year	75	Note 20	Deferred Tax	84
Note 6	Staff Costs (including directors)	76	Note 21	Share Capital	84
Note 7	Net Finance Costs	77	Note 22	Reserves	84
Note 8	Taxation	77	Note 23	Financial Instruments	85
Note 9	Dividends	78	Note 24	Contingent Liabilities	89
Note 10	Earnings Per Share and Net Asset Value Per Share	78	Note 25	Operating Leases	90
Note 11	Investment and Development Properties	79	Note 26	Commitments	90
Note 12	Property, Plant and Equipment	80	Note 27	Related Party Transactions	90
Note 13	Non-Current Trade and Other Receivables	81	Note 28	Share-Based Payments	91
Note 14	Trading Properties	81	Note 29	Subsidiary Undertakings	91
Note 15	Trade and Other Receivables	81			



Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- ▶ properly select and apply accounting policies;
- ▶ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ▶ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- ▶ make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- ▶ the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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;

- ▶ the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- ▶ 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 performance, business model and strategy.

By order of the Board

Rupert Mucklow	David Wooldridge
Chairman	Finance Director
2 September 2014	2 September 2014

Independent Auditor's Report to the Members of A & J Mucklow Group plc

Opinion on financial statements of A & J Mucklow Group plc

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 2014 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 (IFRSs) as adopted by the European Union;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

The financial statements comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 15 that the Group is a going concern. We confirm that:

- ▶ we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- ▶ we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk

How the scope of our audit responded to the risk

Valuation of Investment Property

Valuation of investment property is an area of judgement which could materially affect the financial statements. The Group's property portfolio, as disclosed in note 11 of the Financial Statements, is £297.9 million at 30 June 2014. The external valuers make a number of key estimates and assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases, void periods and purchaser costs. Certain of these estimates and assumptions require input from management. Some of these estimates and assumptions are subject to market forces and will change over time.

We met with the third party valuers, appointed by those charged with governance of A & J Mucklow Group plc. For each element of the property portfolio we assessed the reasonableness of the significant judgements and assumptions applied in their valuation model, including occupancy rates, lease incentives, break clauses, lease lengths and yields. With the assistance of a specialist member of the audit team who is a chartered surveyor we reviewed the significant assumptions in the valuation process, tested a sample of properties through benchmarking against appropriate property indices, understanding the valuation methodology and wider market analysis. We verified the integrity of a sample of information provided to the valuers by management relating to rental income, occupancy and life of the lease by agreement to lease contracts.

Independent Auditor's Report to the Members of A & J Mucklow Group plc continued

Risk

How the scope of our audit responded to the risk

Covenant compliance and liquidity disclosure

Covenant compliance is significant as the continuance of external funding is a key factor in determining the Group's ability to continue as a Going Concern. The Group has £70.2 million of drawn debt as at 30 June 2014 from £105.7 million of available funds and a gearing ratio of 30%. Covenant compliance is dependent on property valuations, cash management and the terms of the group's finance facilities, not all elements of which are within the control of management.

We tested compliance with loan covenants with reference to the Group's financing terms. We reviewed management's forecasts and assumptions for ongoing covenant compliance and available headroom. We conducted sensitivity analysis and reviewed management's sensitivity analysis. We also confirmed that adequate disclosures have been made in the Annual Report which reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern.

Revenue Recognition

Revenue recognition includes revenue recognition in relation to the sale of property and recognition of revenue arising from rental income from investment properties. There are a number of judgements associated with each of these revenue streams regarding the timing of revenue recognition and the value of revenue recognised. Rental income arising from investment properties can include an element of lease incentive accounting which involves management calculating the rental income to be recognised in each accounting period to ensure straight line recognition over the lease length.

We carried out testing around cut off and timing of revenue recognition for key revenue streams. We recalculated the calculation for lease incentive related revenue income. For the relevant leases included in this calculation, we agreed the details to a sample of the leases. We also considered whether the treatment of discounts, rebates, VAT and other sales taxes or duty were appropriate and complied with revenue recognition policies under IFRS. We completed testing to assess whether the revenue recognised is reasonable and revenue recognition policies adopted by the Group were being followed.

REIT Conditions Compliance

A & J Mucklow Group plc is a Real Estate Investment Trust, "REIT". As a REIT, the Group must ensure that it monitors its compliance with the requirements of the regime. Failure to meet these conditions would result in material adjustments to the Group in terms of taxation charges.

Management have prepared calculations to support compliance with these conditions. We have recalculated and agreed compliance with these conditions with reference to the REIT requirements required by law, at the Balance Sheet date, and within the forecast period of twelve months.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 34.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £2.2m, which is 1% of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £44,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope focused primarily on the audit work which we as the Group auditors are responsible. We complete a statutory audit of all active entities within the Group's consolidation, and as such there are no component auditors reporting into Group.

All statutory entities are audited from one location as part of our Group audit opinion to a statutory materiality level which is lower than the Group materiality.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- ▶ the part of the Board Report on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

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

- ▶ we have not received all the information and explanations we require for our audit; or
- ▶ 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Board Report on Directors' Remuneration to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- ▶ materially inconsistent with the information in the audited financial statements; or
- ▶ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- ▶ otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Independent Auditor's Report to the Members of A & J Mucklow Group plc continued

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. **We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.**

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Dodworth (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, UK
2 September 2014

Group Statement of Comprehensive Income

for the year ended 30 June 2014

	Notes	2014 £000	2013 £000
Revenue	2	22,082	21,286
Gross rental income relating to investment properties	2	21,141	20,398
Property outgoings	3	(1,025)	(559)
Net rental income relating to investment properties		20,116	19,839
Proceeds on sale of trading properties	2	45	—
Carrying value of trading properties sold		(13)	—
Property outgoings relating to trading properties		(4)	(2)
Net income from/(expenditure on) trading properties		28	(2)
Administration expenses		(3,232)	(2,997)
Operating profit before net gains on investment and development properties		16,912	16,840
Profit on disposal of investment and development properties		271	92
Revaluation of investment and development properties	11	27,590	2,770
Operating profit		44,773	19,702
Total finance income	7	1	109
Total finance costs	7	(4,071)	(3,465)
Net finance costs	7	(4,070)	(3,356)
Profit before tax	5	40,703	16,346
Tax credit	8	—	41
Profit for the financial year		40,703	16,387
Other comprehensive income:			
Items that will not be reclassified subsequently to profit and loss:			
Revaluation of owner-occupied property		67	(25)
Total comprehensive income for the year attributable to the owners of the parent		40,770	16,362
All operations are continuing.			
Basic and diluted earnings per share	10	66.45p	27.21p

FINANCIALS

Statement of Changes in Equity

for the year ended 30 June 2014

Group	Ordinary share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Share-based payments reserve £000	Retained earnings £000	Total equity £000
Balance at 1 July 2012	15,044	—	11,162	139	264	150,961	177,570
Retained profit	—	—	—	—	—	16,387	16,387
Other comprehensive income	—	—	—	(25)	—	—	(25)
Total comprehensive income	—	—	—	(25)	—	16,387	16,362
Share-based payment	—	—	—	—	176	—	176
Ordinary share issue	16	—	—	—	—	—	16
Exercise of share options	—	—	—	—	(134)	134	—
Dividends paid	—	—	—	—	—	(11,645)	(11,645)
Balance at 30 June 2013	15,060	—	11,162	114	306	155,837	182,479
Retained profit	—	—	—	—	—	40,703	40,703
Other comprehensive income	—	—	—	67	—	—	67
Total comprehensive income	—	—	—	67	—	40,703	40,770
Share-based payment	—	—	—	—	194	—	194
Ordinary share issue	750	13,017	—	—	—	—	13,767
Exercise of share options	—	—	—	—	(167)	167	—
Lapsed dividend	—	—	—	—	—	31	31
Dividends paid	—	—	—	—	—	(12,270)	(12,270)
Balance at 30 June 2014	15,810	13,017	11,162	181	333	184,468	224,971

Company

Balance at 1 July 2012	15,044	—	11,162	—	264	152,248	178,718
Retained profit	—	—	—	—	—	4,286	4,286
Ordinary share issue	16	—	—	—	—	—	16
Share-based payment	—	—	—	—	176	—	176
Exercise of share options	—	—	—	—	(134)	134	—
Dividends paid	—	—	—	—	—	(11,645)	(11,645)
Balance at 30 June 2013	15,060	—	11,162	—	306	145,023	171,551
Retained profit	—	—	—	—	—	10,681	10,681
Ordinary share issue	750	13,017	—	—	—	—	13,767
Share-based payment	—	—	—	—	194	—	194
Exercise of share options	—	—	—	—	(167)	167	—
Lapsed dividend	—	—	—	—	—	31	31
Dividends paid	—	—	—	—	—	(12,270)	(12,270)
Balance at 30 June 2014	15,810	13,017	11,162	—	333	143,632	183,954

Group Balance Sheet

at 30 June 2014

	Notes	2014 £000	2013 £000
Non-current assets			
Investment and development properties	11	297,916	261,787
Property, plant and equipment	12	1,233	1,247
Derivative financial instruments		249	352
Trade and other receivables	13	639	780
		300,037	264,166
Current assets			
Trading properties	14	468	458
Trade and other receivables	15	1,447	1,747
Cash and cash equivalents	16	6,992	1,262
		8,907	3,467
Total assets		308,944	267,633
Current liabilities			
Trade and other payables	17	(9,497)	(8,279)
Borrowings	19	(4,203)	—
Current tax liabilities		(731)	(746)
		(14,431)	(9,025)
Non-current liabilities			
Borrowings	19	(69,542)	(76,129)
Total liabilities		(83,973)	(85,154)
Net assets		224,971	182,479
Equity			
Called up ordinary share capital	21	15,810	15,060
Share premium	22	13,017	—
Revaluation reserve	22	181	114
Share-based payment reserve		333	306
Redemption reserve	22	11,162	11,162
Retained earnings		184,468	155,837
Total equity		224,971	182,479
Net asset value per share			
— Basic and diluted	10	356p	303p
— EPRA	10	358p	305p

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 2 September 2014.

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

FINANCIALS

Parent Company Balance Sheet

at 30 June 2014

	Notes	2014 £000	2013 £000
Non-current assets			
Investments	27	186,142	186,142
Derivative financial instruments		249	352
Trade and other receivables		517	657
		186,908	187,151
Current assets			
Trade and other receivables	15	36,519	25,761
		36,519	25,761
Total assets		223,427	212,912
Current liabilities			
Trade and other payables	17	(4,621)	(4,061)
Borrowings	19	(4,203)	—
Current tax liabilities		(741)	(762)
		(9,565)	(4,823)
Non-current liabilities			
Borrowings	19	(29,908)	(36,538)
Total liabilities		(39,473)	(41,361)
Net assets		183,954	171,551
Equity			
Called up ordinary share capital	21	15,810	15,060
Share premium	22	13,017	—
Share-based payment reserve		333	306
Redemption reserve	22	11,162	11,162
Retained earnings		143,632	145,023
Total equity		183,954	171,551

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 2 September 2014.

Group Cash Flow Statement

for the year ended 30 June 2014

	Notes	2014 £000	2013 £000
Cash flows from operating activities			
Operating profit		44,773	19,702
Adjustments for non-cash items			
— Unrealised net revaluation gains on investment and development properties		(27,590)	(2,770)
— Profit on disposal of investment properties		(271)	(92)
— Depreciation		95	96
— Share-based payments		194	175
— Profit on sale of property, plant and equipment		(4)	(39)
— Amortisation of lease incentives		(1,365)	(1,180)
Other movements arising from operations			
— Increase in trading properties		(10)	(8)
— Decrease/(increase) in receivables		300	(152)
— Increase in payables		822	231
Net cash generated from operations		16,944	15,963
Interest received		1	87
Interest paid		(3,580)	(3,132)
Preference dividends paid		(47)	(71)
Corporation tax refunded/(paid)		6	(15)
Net cash inflow from operating activities		13,324	12,832
Cash flows from investing activities			
Acquisition of and additions to investment and development properties		(10,498)	(6,048)
Proceeds on disposal of investment and development properties		3,885	92
Net expenditure on property, plant and equipment		(10)	(132)
Net cash outflow from investing activities		(6,623)	(6,088)
Cash flows from financing activities			
Net decrease in borrowings		(2,500)	(14,756)
New long-term loan		—	20,000
Equity share issues		14,235	16
Cost of equity share issue		(467)	—
Payment for derivative financial instruments		—	(313)
Equity dividends lapsed		31	—
Equity dividends paid		(12,270)	(11,645)
Net cash outflow from financing activities		(971)	(6,698)
Net increase in cash and cash equivalents		5,730	46
Cash and cash equivalents at 1 July		1,262	1,216
Cash and cash equivalents at 30 June	16	6,992	1,262

FINANCIALS

Parent Company Cash Flow Statement

for the year ended 30 June 2014

	2014 £000	2013 £000
Cash flows from operating activities		
Operating profit	11,362	4,936
Adjustments for non-cash items		
— Share-based payments	194	175
— Decrease in receivables	3,866	13,556
— (Decrease)/increase in payables	(12,893)	9,043
Net cash generated from operations	2,529	27,710
Interest paid	(1,511)	(1,324)
Preference dividends paid	(47)	(71)
Corporation tax paid	—	(15)
Net cash inflow from operating activities	971	26,300
Cash flows from financing activities		
Net decrease in borrowings	(2,500)	(14,358)
Payment for derivative financial instruments	—	(313)
Equity share issue	14,235	16
Cost of equity share issue	(467)	—
Equity dividends lapsed	31	—
Equity dividends paid	(12,270)	(11,645)
Net cash outflow from financing activities	(971)	(26,300)
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at 1 July	—	—
Cash and cash equivalents at 30 June	—	—

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 27.

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 deferred tax thereon 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. Control is assumed where the Parent Company has the power to govern the financial and operational policies of the subsidiary.

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

Going concern

As at 30 June 2014 the Group had £35.5m of undrawn banking facilities and had drawn down £9.5m from its HSBC £44m 2018 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 gearing level of 30% and £93.6m 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.

Management has made judgements over the valuation of properties that 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 including future rental income and an appropriate discount rate. The valuers also use market evidence of transaction prices for similar properties.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards, Amendments and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	'Financial Instruments'
Amendment to IAS 32	'Offsetting Financial Assets and Financial Liabilities'
IFRS 10	'Consolidated Financial Statements'
IFRS 11	'Joint Arrangements'
IFRS 12	'Disclosure of Interest in Other Entities'
IAS 27 (Revised)	'Separate Financial Statements'
IAS 28 (Revised)	'Investments in Associates and Joint Ventures'
Amendments to IFRS 10, IFRS 12 and IAS 27	'Investment Entities'
Amendments to IAS 36	'Recoverable Amount Disclosures for Non-Financial Assets'
Amendments to IAS 39	'Novation of Derivative and Continuation of Hedge'
IFRIC 21	'Levies'
Amendment to IAS 19	'Defined Benefit Plans Employee Contributions'
The Annual Improvements 2010–2013 Cycle	
Amendments to IFRS 11	'Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)'
Amendments to IAS 16 and IAS 38	'Clarification of Acceptable Methods of Depreciation and Amortisation'
IFRS 15	'Revenue from Contracts with Customers'

Notes to the Financial Statements continued

1 ACCOUNTING POLICIES continued

The adoption of these Standards, Amendments and Interpretations will either result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements.

In the current financial year, the Group has adopted IFRS 13 'Fair Value Measurement'. Otherwise, the same accounting policies, presentation and methods of computation are followed in the financial statements as applied in the 2013 annual report and financial statements. IFRS 13 has impacted the measurement of fair value for certain assets and liabilities, as well as introducing new disclosures as set out in note 23. No retrospective changes were necessary as a result of the adoption of this standard.

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. Service charges and other recoverables are credited against the related expense.

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

Revenue and profits on sale of investment, development and trading properties are taken into account 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.

Cost of properties

An amount equivalent to the 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 does not include the original book cost of investment property under development or refurbishment. 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. Surpluses and deficits attributable to the Group arising from revaluation are recognised in the statement of comprehensive income. Valuation surpluses reflected in retained earnings are not distributable until realised on sale.

Properties under development, which were not previously classified as investment properties, are valued at fair value until practical completion, when they are transferred to investment properties. Valuation surpluses and deficits attributable to properties under development are recognised in the statement of comprehensive income.

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.

1 ACCOUNTING POLICIES continued**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 surplus 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.

Government 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.

Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Temporary differences arise from the inclusion of items in taxation computations in periods different from when they are included in the financial statements. Deferred tax is provided on temporary differences arising from the revaluation of fixed assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Taxation

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.

Notes to the Financial Statements continued

1 ACCOUNTING POLICIES continued

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.

Group undertakings

Investments are included in the 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 are 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.

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

	2014 £000	2013 £000
Gross rental income from investment and development properties	21,141	20,398
Service charge income	896	888
Income received from trading properties	45	—
	22,082	21,286
Finance income (note 7)	1	109
Total revenue	22,083	21,395

3 PROPERTY COSTS

	2014 £000	2013 £000
Service charge income	(896)	(888)
Service charge expenses	1,017	1,006
Other property expenses	904	441
	1,025	559

Notes to the Financial Statements continued

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.

	2014 £000	2013 £000
Investment and development properties		
— Net rental income	20,116	19,839
— Profit on disposal	271	92
— Gain on revaluation of investment properties	27,633	2,770
— Deficit on revaluation of development properties	(43)	—
	47,977	22,701
Trading properties		
— Income received from trading properties	45	—
— Carrying value on sale	(13)	—
— Property outgoings	(4)	(2)
	28	(2)
Net income from the property portfolio before administration expenses	48,005	22,699
Administration expenses	(3,232)	(2,997)
Operating profit	44,773	19,702
Net financing costs	(4,070)	(3,356)
Profit before tax	40,703	16,346
The property revaluation gain has been recognised as follows:		
Within operating profit		
— Investment properties	27,633	2,770
— Development properties	(43)	—
	27,590	2,770
Within other comprehensive income		
— Owner-occupied properties	67	(25)
Total revaluation gain for the period	27,657	2,745

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:

	2014 £000	2013 £000
Balance sheet		
Investment and development properties		
— Segment assets	299,160	263,343
— Segment liabilities	(5,879)	(5,898)
— Net borrowings	(66,753)	(74,867)
	226,528	182,578
Trading properties		
— Segment assets	468	458
— Segment liabilities	—	—
	468	458
Other activities		
— Unallocated assets	2,324	2,570
— Unallocated liabilities	(4,349)	(3,127)
	(2,025)	(557)
Net assets	224,971	182,479
Capital expenditure		
Investment and development properties	10,779	6,048
Other activities	50	244
	10,829	6,292
Depreciation		
Other activities	95	96
	95	96

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

5 PROFIT FOR THE YEAR

	2014 £000	2013 £000
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	95	96
Profit on the sale of property, plant and equipment	(4)	(39)
Net gains on revaluation of investment and development properties	(27,590)	(2,770)
Staff costs (see note 6)	1,954	1,909

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 £10.7m (2013: £4.3m).

FINANCIALS

Notes to the Financial Statements continued

5 PROFIT FOR THE YEAR continued

Auditor's remuneration – Deloitte LLP

	2014 £000	2013 £000
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual financial statements	47	42
Fees payable to the Company's Auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	12	12
Total audit fees	59	54
Audit related assurance services	12	10
Taxation compliance services	30	30
Other taxation advisory services	25	11
Total non-audit fees	67	51

The fees paid to the Group's Auditor in the current and prior year in respect of other services primarily relate to the half year review, corporate tax compliance work and corporate tax advice, VAT advice and REIT compliance. The level of fees paid to Deloitte LLP for non-audit services during the year has been reviewed by the Audit Committee, who are satisfied that there is no risk of the independence of the audit being compromised.

The use of Deloitte LLP to provide tax services is considered to be appropriate given the complexity of the Group's tax affairs, which requires a detailed knowledge of the structure and history of the organisation.

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:

	2014 Number	2013 Number
Management	6	6
Administration	4	4
Property	5	5
Total employees	15	15

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:

	2014 £000	2013 £000
Wages and salaries	1,319	1,337
Share-based payment	242	212
Social security costs	245	210
Pension costs	148	150
	1,954	1,909

Pension arrangements

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

Pension contributions (including for directors) paid in the year ended 30 June 2014 amounted to £148,095 (2013: £149,881).

7 NET FINANCE COSTS

	2014 £000	2013 £000
Finance costs on:		
Debtenture stock	483	483
Preference share dividend	47	47
Fair value movement of derivative financial instruments	103	—
Capitalised interest	(10)	—
Bank overdraft and loan interest payable	3,448	2,935
Total finance costs	4,071	3,465
Finance income on:		
Short-term deposits	—	1
Fair value movement of derivative financial instruments	—	22
Bank and other interest receivable	1	86
Total finance income	1	109
Net finance costs	4,070	3,356

8 TAXATION

	2014 £000	2013 £000
Current tax		
— Corporation tax	—	—
— Adjustment in respect of previous years	—	(41)
	—	(41)
Deferred tax	—	—
Total tax credit in the statement of comprehensive income	—	(41)

The tax credit in the previous financial year reflects the removal of provisions in respect of prior year liabilities.

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

	2014 £000	2013 £000
Profit before tax	40,703	16,346
Profit before tax multiplied by the standard rate of UK corporation tax of 22.5% (2013: 23.75%)	9,158	3,882
Effect of:		
REIT exempt income and gains	(9,415)	(4,232)
Losses not recognised	213	308
Share based payments	44	42
Adjustments in respect of prior years	—	(41)
	—	(41)

A reduction in the main rate of corporation tax from 23% to 21% with effect from 1 April 2014 and from 21% to 20% from 1 April 2015 was substantively enacted on 2 July 2013 and as such deferred tax at the balance sheet date has been recognised at the reduced rate and current tax for the year ended 30 June 2014 has been calculated at the blended rate of 22.5%.

The Group became a Real Estate Investment Trust (REIT) on 1 July 2007. Under the tax rules which apply to REITs properties which are developed and sold within three years of completion do not benefit from the normal REIT tax exemption on disposal gains. The Group currently owns £Nil (2013: £21.3m) of properties which have completed development during the previous three years. If these properties had been disposed of at their 30 June 2014 valuation, then tax of £Nil (2013: £1.4m) would have become payable. No deferred tax has been provided in respect of this potential tax liability as the Group had no plans to dispose of these properties at the balance sheet date.

Notes to the Financial Statements continued

9 DIVIDENDS

	2014 £000	2013 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 June 2013 of 10.86p (2012: 10.55p) per share	6,553	6,356
Interim dividend for the year ended 30 June 2014 of 9.04p (2013: 8.78p) per share	5,717	5,289
Dividends lapsed	(31)	—
	12,239	11,645

The directors propose a final dividend for the year ended 30 June 2014 of 11.19p (2013: 10.86p) per Ordinary share, totalling £7.1m.

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 2 January 2015 to shareholders on the register at the close of business on 28 November 2014.

10 EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

Earnings per share

The basic and diluted earnings per share of 66.45p (2013: 27.21p) has been calculated on the basis of the weighted average of 61,250,268 Ordinary shares (2013: 60,218,113 Ordinary shares) and profit of £40.7m (2013: £16.4m).

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:

	2014 £000	2013 £000
Earnings	40,703	16,387
Profit on disposal of investment and development properties	(271)	(92)
Net gains on revaluation of investment and development properties	(27,590)	(2,770)
Net (income from)/expenditure on trading properties	(28)	2
Fair value movement on derivative financial instruments	103	(22)
Tax adjustments	—	—
EPRA earnings	12,917	13,505
EPRA earnings per share	21.09p	22.43p

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.

There are no dilutive shares. Options over 87,606 Ordinary shares were granted in the year (2013: 112,583 Ordinary shares) under the 2007 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 third three year award under the 2007 Performance Share Plan vested in the period, with 98,820 Ordinary shares being issued and with 19,768 shares lapsed.

Net asset value per share

The net asset value per share of 356p (2013: 303p) has been calculated on the basis of the number of equity shares in issue of 63,241,338 (2013: 60,242,518) and net assets of £225.0m (2013: £182.5m). The EPRA net asset value per share has been calculated as follows:

	2014 £000	2013 £000
Equity shareholders' funds	224,971	182,479
Valuation of land held as trading properties	1,942	1,871
Book value of land held as trading properties	(468)	(458)
Fair value of derivative financial instruments	(249)	(352)
EPRA net asset value	226,196	183,540
EPRA net asset value per share	358p	305p

11 INVESTMENT AND DEVELOPMENT PROPERTIES

Group	Investment £000	Development £000	Total £000
At 1 July 2012	243,789	8,000	251,789
Additions	6,041	7	6,048
Lease incentives	1,180	—	1,180
Revaluation gain	2,770	—	2,770
At 30 June 2013	253,780	8,007	261,787
Additions	9,053	1,726	10,779
Lease incentives	1,365	—	1,365
Capitalised interest	—	10	10
Disposals	(3,615)	—	(3,615)
Revaluation gain	27,633	(43)	27,590
At 30 June 2014	288,216	9,700	297,916

The closing book value shown above comprises £279.1m (2013: £244.4m) of freehold and £18.8m (2013: £17.4m) of leasehold properties.

	Freehold £000	Leasehold £000	Total £000
Properties held at valuation on 30 June 2014:			
Cost	197,679	21,483	219,163
Valuation surplus/(deficit)	81,472	(2,718)	78,753
Valuation	279,151	18,765	297,916
	Freehold £000	Leasehold £000	Total £000
Properties held at valuation on 30 June 2013:			
Cost	188,649	21,192	209,841
Valuation surplus/(deficit)	55,788	(3,842)	51,946
Valuation	244,437	17,350	261,787

The properties are stated at their 30 June 2014 fair value and are valued by DTZ Debenham Tie Leung Limited, professionally qualified external valuers, in accordance with the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. DTZ Debenham Tie Leung Limited have recent experience in the relevant location and category of the properties being valued.

	2014 £000	2013 £000
DTZ valuation	298,937	262,745
Owner-occupied property included in property, plant and equipment	(1,000)	(933)
Other adjustments	(21)	(25)
Investment and development properties as at 30 June 2014	297,916	261,787

Additions to freehold and leasehold properties include capitalised interest of £0.01m (2013: £Nil). The total amount of interest capitalised included in freehold and leasehold properties is £5.3m (2013: £5.3m). Properties valued at £205.3m (2013: £187.5m) were subject to a security interest.

FINANCIALS

Notes to the Financial Statements continued

12 PROPERTY, PLANT AND EQUIPMENT

Group	Owner-occupied property £000	Plant and vehicles £000	Total £000
Cost			
At 1 July 2012	958	1,003	1,961
Additions	—	244	244
Disposals	—	(232)	(232)
Revaluation deficit	(25)	—	(25)
At 30 June 2013	933	1,015	1,948
Depreciation			
At 1 July 2012	—	763	763
Charged in year	—	96	96
On disposal	—	(158)	(158)
At 30 June 2013	—	701	701
Net book value			
At 30 June 2013	933	314	1,247
At 30 June 2012	958	240	1,198
Properties held at valuation:			
Cost	948	—	948
Valuation deficit	(15)	—	(15)
Valuation	933	—	933
Cost			
At 1 July 2013	933	1,015	1,948
Additions	—	50	50
Disposals	—	(570)	(570)
Revaluation surplus	67	—	67
At 30 June 2014	1,000	495	1,495
Depreciation			
At 1 July 2013	—	701	701
Charged in year	—	95	95
On disposal	—	(534)	(534)
At 30 June 2014	—	262	262
Net book value			
At 30 June 2014	1,000	233	1,233
At 30 June 2013	933	314	1,247
Properties held at valuation:			
Cost	948	—	948
Valuation deficit	52	—	52
Valuation	1,000	—	1,000

Owner-occupied properties are valued by DTZ Debenham Tie Leung Limited on the same basis as the investment properties. See note 11 for details.

13 NON-CURRENT TRADE AND OTHER RECEIVABLES

	2014 £000	2013 £000
Mortgage receivables	122	122
Other debtors	517	658
	639	780

The figures shown above are after deducting a provision for bad and doubtful debts of £Nil (2013: £Nil).

The directors consider that the carrying amount of trade and other receivables is 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.

14 TRADING PROPERTIES

	2014 £000	2013 £000
Land stock	468	458

15 TRADE AND OTHER RECEIVABLES

Group	2014 £000	2013 £000
Falling due in less than one year		
Trade receivables	1,214	1,516
Prepayments and accrued income	233	231
	1,447	1,747

Company		
Falling due in less than one year		
Amounts due from Group undertakings	36,512	25,756
Prepayments and accrued income	7	5
	36,519	25,761

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. An allowance has been made for estimated irrecoverable amounts from rental income of £0.0m (2013: £0.0m). 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 £0.3m (2013: £0.5m) 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 5 days (2013: 8 days).

FINANCIALS

Notes to the Financial Statements continued

15 TRADE AND OTHER RECEIVABLES continued

Ageing of past due but not impaired receivables:

	2014 £000	2013 £000
Number of days past due		
1–30 days	343	524
30–60 days	2	5
60–90 days	(5)	2
90 days +	6	10
Balance at 30 June past due but not impaired	346	541
Current	868	975
Balance at 30 June	1,214	1,516

Movement in the allowance for doubtful debts (net of VAT):

	2014 £000	2013 £000
At 1 July	16	15
Impairment losses recognised	27	22
Amounts written off	(10)	(15)
Amounts recovered during the year	(1)	(6)
Balance at 30 June	32	16

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.

Ageing of impaired trade receivables:

	2014 £000	2013 £000
Number of days past due		
1–30 days	2	—
30–60 days	—	4
60–90 days	—	3
90 days +	35	12
	37	19

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

16 CASH AND CASH EQUIVALENTS

	2014 £000	2013 £000
Cash at bank and in hand	6,992	1,262

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 to their fair value.

17 TRADE AND OTHER PAYABLES

	2014 £000	2013 £000
Group		
Deferred income in respect of rents and insurances	5,879	5,898
Trade and other payables	2,314	1,289
Accruals	1,304	1,092
	9,497	8,279
Company		
Amounts due to Group undertakings	4,187	3,469
Trade payables	3	3
Accruals	431	589
	4,621	4,061

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

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. 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.

19 BORROWINGS

	2014 £000	2013 £000
Group		
11.5% First Mortgage Debenture Stock 2014	4,203	4,203
Bank loans	59,367	59,251
Revolving credit facility	9,500	12,000
675,000 (2013: 675,000) Preference shares of £1 each	675	675
	73,745	76,129
Company		
11.5% First Mortgage Debenture Stock 2014	4,203	4,203
Bank loan	19,733	19,660
Revolving credit facility	9,500	12,000
675,000 (2013: 675,000) Preference shares of £1 each	675	675
	34,111	36,538

The 11.5% First Mortgage Debenture Stock 2014 was redeemed at par on the final redemption date of 1 July 2014.

The 11.5% First Mortgage Debenture Stock 2014 was secured by first legal mortgages on certain freehold and leasehold properties and by a first floating charge on the undertakings and all property assets and rights present and future including any uncalled capital of A & J Mucklow (Properties) Limited, a wholly owned subsidiary undertaking of the Company.

The HSBC facilities were renewed in the 2013 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 (2013: £44.0m) revolving credit facilities, £9.5m (2013: £12.0m) was utilised at 30 June 2014. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

Notes to the Financial Statements continued

19 BORROWINGS continued

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

On 3 October 2012 a further £20.0m was agreed with Lloyds Bank with expiry on 3 October 2022. Interest at 5.23% 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.

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 have a deferred tax asset of £0.0m (2013: £0.1m) in respect of interest rate caps in the non-REIT business which has not been recognised due to uncertainty over taxable profits in the short term within the non-REIT business.

21 SHARE CAPITAL

	2014 £000	2013 £000
Authorised		
Equity		
117,300,000 (2013: 117,300,000) Ordinary shares of 25p each	29,325	29,325
Allotted, Called Up and Fully Paid		
Equity		
63,241,338 (2013: 60,242,518) Ordinary shares of 25p each	15,810	15,060

Share options exercised in the year have resulted in the issue of 98,820 (2013: 63,176) Ordinary shares in the year. The Company issued 2,900,000 Ordinary shares at 490p per share in a placing on 4 March 2014.

Options over 87,606 Ordinary shares were granted in the year. The conditions for vesting are disclosed in the Board Report on Directors' Remuneration on pages 36 to 53. 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 (2013: £675,000) at nominal value of £1 Preference shares authorised and in issue, representing 4% (2013: 4%) of the Company's capital. These are classified within non-current borrowings, see note 19.

22 RESERVES

The revaluation reserve represents the revaluation surplus 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 while 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.

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 gearing ratio of 50% determined as the proportion of debt (net of cash) to equity. The gearing ratio at the year-end is as follows:

	2014 %	2013 %
Net debt to equity	30	41

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.

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.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

The Group's principal financial assets are bank balances and cash disclosed in note 16, trade and other receivables disclosed in note 15, derivative financial instruments and mortgages disclosed in note 13. The Group's principal financial liabilities are debenture loans, bank borrowings, Preference share capital and overdrafts as disclosed in notes 18 and 19.

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 gearing and surplus cash have 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.

Notes to the Financial Statements continued

23 FINANCIAL INSTRUMENTS continued

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 (2013: decrease by £0.2m), 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 (2013: £0.2m).

The Group's sensitivity to interest rates has been maintained during the current period due to a minimal decrease in variable rate debt instruments, with long-term fixed rate debt remaining constant.

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 only transacts with entities that are highly rated. 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 2014 is £8.6m (2013: £3.3m).

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.

23 FINANCIAL INSTRUMENTS continued**Liquidity and interest risk tables**

The following tables detail the Group's remaining contractual maturity for its financial liabilities. 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 £000	1-3 months £000	3 months to 1 year £000	1-5 years £000	5+ years £000	Total £000
2014							
Variable interest rate instruments	3.17	186	—	474	31,326	—	31,986
Fixed interest rate instruments	6.00	4,445	520	1,591	8,797	48,465	63,818
		4,631	520	2,065	40,123	48,465	95,804
2013							
Variable interest rate instruments	3.15	193	—	471	34,447	—	35,111
Fixed interest rate instruments	6.00	242	526	1,833	13,048	50,723	66,372
		435	526	2,304	47,495	50,723	101,483

The interest rate caps have been 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. The principal is included when the facility is 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. In October 2012 the Group borrowed a further £20.0m from Lloyds Bank for 10 years at a fixed rate of interest.

The Group has entered into interest rate caps in respect of £35.0m of the 2018 HSBC term loan and revolving credit facilities (2013: £35.0m), in order to limit the impact to the Group of increases in LIBOR interest rates.

The Group had undrawn revolving credit facilities of £34.5m at 30 June 2014 (2013: £32.0m), which expire in 2018. 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 2014 (2013: £1.0m was undrawn). The Group has a fully drawn £20.0m fixed rate loan facility which expires in 2023 (2013: £20.0m), a fully drawn £20.0m fixed rate loan facility which expires in 2022 (2013: £20.0m) and a fully drawn £20.0m variable rate loan facility which expires in 2018 (2013: £20.0m).

Notes to the Financial Statements continued

23 FINANCIAL INSTRUMENTS continued

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 2014	Book value £000	Fair value £000	Fair value adjustment £000	% of book value
Financial assets				
Interest rate caps	249	249	—	—
Financial liabilities				
11.5% First Mortgage Debenture Stock 2014	4,203	4,203	—	—
Lloyds Bank loan 2023	19,962	23,997	4,035	20
Lloyds Bank loan 2022	19,672	19,381	(291)	(1)
HSBC term loan	19,733	20,000	267	1
Revolving credit facility	9,500	9,500	—	—
Preference shares	675	608	(67)	(10)
	73,745	77,689	3,944	5

Fair values As at 30 June 2013				
Financial assets				
Interest rate caps	352	352	—	—
Financial liabilities				
11.5% First Mortgage Debenture Stock 2014	4,203	4,372	169	4
Lloyds Bank loan 2023	19,958	24,680	4,722	24
Lloyds Bank loan 2022	19,633	19,540	(93)	—
HSBC term loan	19,660	20,000	340	2
Revolving credit facility	12,000	12,000	—	—
Preference shares	675	608	(67)	(10)
	76,129	81,200	5,071	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 fair value of the Debenture Stock as at 30 June 2013 was based on its latest trade and in respect of the 30 June 2014 amount the par value of the Debenture Stock is considered to be the fair value, given that the stock was redeemed at par on the following business day. The interest rate caps have been externally valued by discounting expected cash flows at prevailing interest rates at the year end.

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).

23 FINANCIAL INSTRUMENTS continued

30 June 2014				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment and development properties	—	—	297,916	297,916
Financial assets at FVTPL — interest rate caps	—	249	—	249
Available-for-sale assets — mortgage receivables	—	122	—	122

30 June 2013				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment and development properties	—	—	261,787	261,787
Financial assets at FVTPL — interest rate caps	—	352	—	352
Available-for-sale assets — mortgage receivables	—	122	—	122

Investment properties have been valued using the investment method which applies a yield to rental income streams. Inputs include yield, current rent and ERV. For the June 2014 valuation, the yields used ranged from 5.3% to 10.5% (June 2013: 5.7% to 11.9%). 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 are 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	2014 £000	2013 £000
Sterling financial assets:		
Fixed rate	—	—
Non-interest bearing	122	122
	122	122

The Company has no sterling financial assets.

Financial assets are cash at bank and in hand, short-term deposits, derivative financial instruments and mortgage receivables. There were no money market deposits at either 30 June 2014 or 30 June 2013. Cash at bank is at floating rate based on base rate.

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

24 CONTINGENT LIABILITIES

The bank overdrafts and loans of the Group are secured by interlocking cross guarantees given by the Company and subsidiary undertakings. All of the overdrafts and loans 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.

FINANCIALS

Notes to the Financial Statements continued

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:

	2014 £000	2013 £000
Group		
Not later than one year	19,456	18,529
Later than one year but not later than five years	55,168	55,343
Later than five years	61,112	64,712
	135,736	138,584

Property rental income earned during the year was £21.1m (2013: £20.4m). Direct operating expenses arising on the investment property in the period amounted to £1.0m (2013: £0.6m). 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

	2014 £000	2013 £000
Group		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	3,543	Nil

27 RELATED PARTY TRANSACTIONS

Investments in subsidiaries

Company	£000
As at 1 July 2013	186,142
Impairment	—
As at 30 June 2014	186,142

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.

The Company undertakes the following transactions with its active subsidiaries:

- ▶ Providing day-to-day funding; and
- ▶ Receiving dividends of £12.0m (2013: £5.5m).

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 36 to 53.

	2014 £000	2013 £000
Group		
Short-term employee benefit	1,329	1,311
Post-employment benefits	145	142
Share-based payment	236	206
	1,710	1,659

There have been no 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. 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:

	2014		2013	
	Number of share options	Exercise price in p	Number of share options	Exercise price in p
Outstanding at 1 July	354,631	25	328,202	25
Granted during the year	87,606	25	112,583	25
Exercised during the year	(98,820)	25	(63,176)	25
Lapsed during the year	(19,768)	—	(22,978)	—
Outstanding at 30 June	323,649	25	354,631	25
Exercisable at 30 June	—	—	—	—

Options over 98,820 ordinary shares were exercised during the year. The weighted average share price at the date of exercise was 502p. The aggregate amount of gain made by the directors during the year on the exercise of share options was £401,485.

The aggregate of the estimated fair values of the options granted during the year is £0.2m (2013: £0.2m).

The weighted average remaining contracted life of the options outstanding at 30 June 2014 was 1.2 years. The exercise price for all options is 25p per share.

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

	2014	2013
Share price at valuation date	480p	350p
Exercise price	25p	25p
Expected volatility	37%	37%
Risk-free rate	0.76%	0.28%
Expected dividend yield	3.27%	4.45%

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 financial year ended 30 June 2014 (2013: £0.2m).

29 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 principal 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



Shareholder Information

Five Year Record	93
Investor Relations	93
Financial Calendar	93
Glossary	94
Mucklow Performance Comparison	97

SHAREHOLDER INFORMATION

Five Year Record

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Revenue					
Gross rental income	21,141	20,398	20,160	18,344	17,003
Net rental income	20,116	19,839	19,207	17,699	16,495
Other income	28	(2)	1,530	3	1,597
Profit on disposal of investment properties	271	92	307	1,348	—
Operating profit	44,773	19,702	3,210	15,797	38,611
Profit before taxation	40,703	16,346	109	12,892	35,962
Capital					
Net assets	224,971	182,479	177,570	188,618	185,908
Property portfolio	298,916	262,720	252,747	261,281	236,686
Per Ordinary share					
Earnings	66.45p	27.21p	0.28p	22.43p	60.91p
Ordinary dividend*	20.23p	19.64p	19.07p	18.51p	17.97p
Net asset value†	356p	303p	295p	314p	310p

* Representing interim paid 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 11 November 2014 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).

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 2014/15

Annual General Meeting

11 November 2014

Results announced

For the half year to 31 December 2014
For the year to 30 June 2015

February 2015
September 2015

Ordinary dividends

Final for 2013/2014 — announce
— pay

3 September 2014
2 January 2015

Interim for
2014/2015 — announce
— pay

February 2015
June 2015

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 and their related taxation whether deferred or otherwise.

EPRA net asset value is the net asset value, excluding deferred tax on property revaluation surpluses 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 including 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.

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

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

IFRS is International Financial Reporting Standards.

Lease incentives are any incentive 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.

LIBOR is the London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

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 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.

SHAREHOLDER INFORMATION

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.

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.

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.

Shareholder Notes

Mucklow performance comparison since REIT conversion

Total shareholder returns for UK REITs

1 July 2007 to 30 June 2014

	%
Shaftesbury plc	70
Derwent London plc	66
Great Portland Estates plc	53
A & J Mucklow Group plc	53
Highcroft Investments plc	44
Primary Health Properties plc	30
Big Yellow Group plc	12
British Land Company plc	—8
Land Securities Group plc	—9
McKay Securities plc	—12
FTSE EPRA/NAREIT UK	—19
Hammerson plc	—22
Town Centre Securities plc	—22
SEGRO plc	—43
Workspace Group plc	—75

Total shareholder return with dividends reinvested.

Source: Thomson One

A&J Mucklow Group plc

60 Whitehall Road

Halesowen

West Midlands

B63 3JS

Tel: 0121 550 1841

Fax: 0121 550 7532

www.mucklow.com