



MUCKLOW

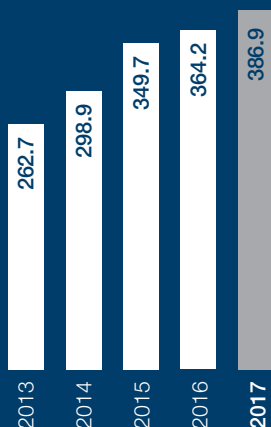
Annual Report and Financial Statements for the year ended 30 June 2017

Stock Code: MKLW

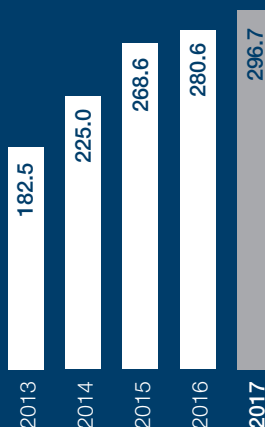
A & J Mucklow Group was founded in the West Midlands in 1933 and listed on the London Stock Exchange in 1962. Its principal activity is selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

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

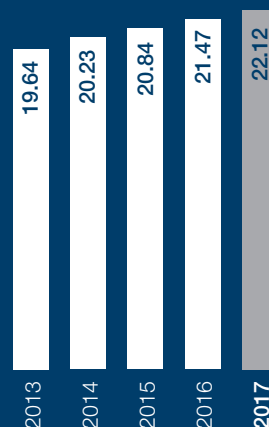
Portfolio Value £m
+6.2%



Net Asset Value £m
+5.7%



Ordinary Dividend p
+3.0%



Financial Summary

for the year ended 30 June 2017

Statement of comprehensive income

	Year ended 30 June 2017	Year ended 30 June 2016
Underlying pre-tax profit ¹	£15.9m	£15.0m
Statutory pre-tax profit	£29.6m	£25.2m
EPRA EPS ¹	25.05p	23.88p
Basic EPS	46.63p	39.86p
Ordinary dividend per share	22.12p	21.47p

Balance sheet

	30 June 2017	30 June 2016
Net asset value	£296.7m	£280.6m
EPRA NAV per share ¹	471p	446p
Basic NAV per share	469p	443p
Net debt	£78.5m	£71.2m
Net debt to equity gearing	26%	25%

Property portfolio

	30 June 2017	30 June 2016
Vacancy rate	4.2%	3.2%
Portfolio value ²	£386.9m	£364.2m
Valuation gain	£13.0m	£10.2m
Initial yield on investment properties	6.2%	6.4%
Equivalent yield	7.0%	7.2%

The ordinary dividend of 22.12p per share (2016: 21.47p) consists of the first and second quarterly dividends totalling 9.88p, a third quarterly dividend of 5.15p and a final dividend of 7.09p.

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

2. See note 11.

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See more information
online at
www.mucklow.com

Chairman's Statement

Rupert Mucklow, Chairman



I am pleased to report another steady performance by the Group for the year ended 30 June 2017.

Our property portfolio continued to perform well, in favourable market conditions. We maintained a high occupancy level throughout the year and delivered further rental growth, which in turn has contributed towards a £0.9m rise in underlying pre-tax profit (6.0%) and 25p increase in EPRA net asset value per share (5.6%).

Conditions were also ideal during the year for us to plan our future funding requirements. We refinanced the majority of our banking facilities, extending the terms of our loans and reduced the average cost of borrowing.

In recognition of further improvement in underlying profit, the Board are proposing to increase the ordinary dividend by 3% again this year, maintaining an unbroken dividend record spanning over five decades.

This is our 55th year as a quoted company and 10th anniversary as a Real Estate Investment Trust (REIT). We are a small team of 11 employees and 3 independent non-executive directors, proud of our corporate heritage, with a strategy focused on providing long-term stability and growth for our shareholders.

Results

Statutory pre-tax profit was £29.6m, which included a revaluation surplus of £13.0m (2016: £25.2m, including a revaluation surplus of £10.2m).

The underlying pre-tax profit, which excludes revaluation movements, profit on the sale of investment and trading properties and early repayment costs, increased by 6.0% during the year to £15.9m (2016: £15.0m). EPRA adjusted earnings per ordinary share was 4.9% higher at 25.05p (2016: 23.88p).

EPRA net asset value per ordinary share increased by 5.6% during the year from 446p to 471p. Basic net asset value per share increased by 26p to 469p.

Shareholders' funds rose to £296.7m (2016: £280.6m), while total net borrowings amounted to £78.5m (2016: £71.2m). Net debt to equity gearing was 26% and loan to value ("LTV") 20%.

Dividend

The Board is recommending the payment of dividends amounting to 12.24p per ordinary share, an increase of 3% over last year (2016: 11.88p), making a total for the year of 22.12p (2016: 21.47p).

A quarterly dividend of 5.15p per ordinary share is to be paid on 16 October 2017 to Shareholders on the register at the close of business on 15 September 2017 and a final dividend of 7.09p per ordinary share, if approved by shareholders at the AGM, will be paid on 15 January 2018 to Shareholders on the register at the close of business on 15 December 2017.

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

Property Review

The occupational market in the Midlands remained active throughout the year, with demand outstripping supply. As a consequence, we have been able to continue to achieve average rental growth of around 10% on new lettings, lease renewals and rent reviews.

Our vacancy rate at 30 June 2017 was 4.2% (31 December 2016: 4.1%). This included 1.2% of vacant space returned to us on the expiry of five leases, just prior to our year end in June 2017. Our vacant space also included one empty office building (0.6% of vacant space) which is currently being refurbished and not available for rental until December 2017. In addition, approximately 1.0% of our vacant space was reserved at the year end.

The vacant office building, comprising 24,125 sq ft, is in a prime location, close to Birmingham International Railway Station and Airport and is currently undergoing a substantial refurbishment at a cost of around £2.7m. When completed later this year, it will have a rental value of around £0.54m per annum.

We acquired a prominent 70,182 sq ft industrial/warehouse building during the year at Barton-Under-Needwood for £5.6m. The property is located at the front of Barton Business Park, on the A38 between the A50 and A5 trunk roads. Built in 2005, the unit is currently let at a rent of £0.4m per annum.

We also completed the acquisition of a pre-let office development at Grove Park, Leicester for £4.7m. The property comprises 20,829 sq ft of high quality offices let at an initial rent of £0.35m per annum.

Construction on our first pre-let development at i54 Wolverhampton started in the second half-year, with completion anticipated for early 2018. The property will comprise a 44,250 sq ft industrial unit and the initial rent will be £0.28m per annum.

A vacant 12,000 sq ft office building in Henley on Thames was sold during the year to a residential developer for £4.1m, to show a profit of £1.9m over the last valuation.

The regional property investment market was also very competitive during the year, particularly for high quality properties with rental growth potential. There were only a limited number of industrial investment opportunities and transactions recorded, but yields contracted a little further, due to the heavy demand and tight supply of stock.

Property Valuation

Cushman & Wakefield revalued our property portfolio at 30 June 2017. The investment properties and development land were valued at £386.9m, recognising a revaluation surplus of £13.0m (3.5%).

The initial yield on the investment properties was 6.2% (30 June 2016: 6.4%). The equivalent yield was 7.0% (30 June 2016: 7.2%).

Cushman & Wakefield also revalued our trading properties at 30 June 2017. The total value was £1.9m (2016: £1.9m), which showed an unrecognised surplus of £1.4m against book value (2016: £1.4m).

Finance

We renewed our £64m banking facilities with HSBC during the first half-year for a further 5 years to 2021 on a 30% lower margin.

We also repaid a £20m, 5.23% fixed rate loan we had with Lloyds Bank, which was due to expire in 2022, incurring an early debt repayment cost of £1.2m and took out a new £40m term loan facility with Scottish Widows for a period of 15 years, fixed at 3.5%.

As such, our weighted average cost of debt has reduced to 3.1% (30 June 2016: 4.1%) or 3.6% on drawn amounts (2016: 4.4%) and our weighted average term remaining on debt has increased to 7.7 years (30 June 2016: 5.5 years).

The total net borrowings at 30 June 2017 was £78.5m (30 June 2016: £71.2m), while undrawn banking facilities were £40.5m (30 June 2016: £27.0m).

Net debt to equity gearing at 30 June 2017 was 26% (30 June 2016: 25%) and LTV was 20% (30 June 2016: 20%).

Long Term Performance

Shareholders may be interested to know that £1,000 invested in A&J Mucklow Group at flotation in 1962 would have been worth £3.3m* at 30 June 2017, assuming all the dividends had been reinvested, which would show a Total Shareholder Return (TSR) of around 15.8% per annum for the last 55 years.

A&J Mucklow Group also has the distinguished record of having never cut its dividend in 55 years as a listed company. The dividend has increased 50 times and been maintained on only 5 occasions.

Since conversion to a REIT on 1 July 2007, A&J Mucklow Group has paid out £120m in ordinary dividends to Shareholders and has been one of the best performing REITs over 10 years, with a TSR of +99.5%, against the FTSE EPRA/NAREIT UK Index of -2.3% for the same period*.

Outlook

Since our year end, the number of tenant enquiries for our vacant properties has continued in a similar manner as before and we are not expecting conditions to change much over the next 6 months.

Should it be necessary, we are extremely well positioned to adapt our short-term strategy in order to capitalise on any uncertainty and opportunities that may occur and remain confident of our ability to continue to deliver long-term performance for our shareholders.

Rupert Mucklow
Chairman

4 September 2017

*Source: Bloomberg

Strategy and Business Model

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation, by investing and developing industrial and commercial property, 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 which are attractive to both occupiers and investors.

Sector focus

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

Geographic focus

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

Strategy

The three areas of our strategy are:

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

Investment

The core of our business is the investment property portfolio, which represents 98% of the value of the investment and development properties held. The investment portfolio consists of 63 properties/estates, with 346 units, totalling 3.9m sq ft.

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

Development

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

Asset management

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

Financial strength

Our low cost base, comprising only eleven 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.

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.

Barton Business Park, Barton-under-Needwood



Industrial building of
70,182 sq ft

Cost
£5.6m

Purchased
October 2016

Mucklow Park i54, Wolverhampton



Property Review

Justin Parker, Managing Director



Overview

The Group has enjoyed another positive and robust performance during the year ended 30 June 2017. Gross rental income has risen by 3.5% to £23.7m, underlying pre-tax profit by 6.0% (£0.9m) to £15.9m and ordinary dividends by 3.0%. Net assets have advanced in value to over £296m and net debt to equity gearing has remained low at 26% (2016: 25%).

Strong occupational demand and the continued lack of available stock in our core market of Midlands industrial, together with our asset management initiatives, have allowed us to maintain a high occupancy rate of 95.8%. In addition to this we have continued to sustain average real rental growth of around 10% on new lettings, lease renewals and rent reviews.

Investor demand for industrial property has remained high, driven by the reality of strong rental growth. This has helped increase the value of our industrial and commercial property portfolio by 3.5% (£13.0m) over the twelve month period.

Key performance indicators

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

	2017	2016
Underlying pre-tax profit* (£m)	15.9	15.0
Vacant space (%)	4.2	3.2
Dividend growth (%)	3.0	3.0
Net debt to equity gearing (%)	26	25

*See the table on page 11 for the calculations.

Acquisition and disposal of investment properties

The industrial investment market was very competitive during our financial year, particularly in the second half, with low yields being paid for quality industrial properties.

In October 2016 we completed the purchase of a 70,182 sq ft industrial/warehouse building at a cost of £5.6m (initial yield: 6.9%). The building is located on Barton Business Park in Barton-under-Needwood. The unit is let at an annual rent of £0.41m (£5.85 psf).

In January 2016 terms were agreed to forward fund a 20,829 sq ft pre-let office building at Grove Park, Leicester, for £4.7m (initial yield: 7.0%). Completion of the high quality office scheme with 112 car parking spaces took place in December 2016. The annual rent of £0.35m (£16.78 psf) commenced on completion of the acquisition.

In August 2016 the tenant of the Reading Road offices in Henley-on-Thames vacated. Considerable interest in the building was received from local residential developers. The office was sold in November 2016 for £4.1m, at an 86% premium to the 30 June 2016 valuation of £2.2m.

We continue to look for attractively priced investment properties, focusing on the Midlands industrial property market.

Developing new properties for long-term investment

Mucklow Park i54, Wolverhampton

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

Construction is currently taking place on site of a 44,250 sq ft industrial unit following a pre-letting to Tentec Limited, a subsidiary of Atlas Copco. The unit is due to complete in February 2018 and will produce a rent of £0.28m.

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

Mucklow Park, Tyseley

Birmingham City Council are currently out to tender with a shortlist of civil contractors for the construction of a new link road running alongside our 20 acre site in Tyseley, Birmingham. Construction of the road is expected to commence in early 2018. Whilst awaiting the construction of this new road we continue to actively seek pre-lets for our proposed scheme.

Property Review

continued

If the occupational market for industrial property continues to be supportive, our 35 acres of development land at i54, Wolverhampton and Tyseley, Birmingham provides the potential for up to 625,000 sq ft of pre-let industrial/warehouse space.

Actively managing our assets to enhance value

The positive trends in the occupational market have continued in the year. Active management and a shortage of industrial properties available to let has supported rental growth. Our vacancy rate increased slightly to 4.2% at our year end (30/06/16: 3.2%), although 1.2% of space was returned to us, as a result of lease expiries, in June 2017.

This growth in income and low level of voids helped to increase net rental income as well as the capital value of the portfolio, with a revaluation surplus of £13.0m over the year.

Rent reviews completed in the year, on properties with a previous annual rent totalling £1.5m, were agreed at an average uplift of 10.3%.

Lease renewals have been agreed over 237,860 sq ft of space at a new rent of £2.1m, an increase of 10.7%.

New leases were agreed in the year totalling 222,812 sq ft, producing an annual rent of £1.2m, an increase of 8.7% over our ERV.

In December 2016 we agreed an early lease surrender on a 64,000 sq ft industrial unit at Kings Hill, Wednesbury. The unit was previously let at £0.28m until March 2017. Following refurbishment, a new 20 year lease with a break at the 10th anniversary was agreed in June 2017 at an annual rent of £0.32m.

We also agreed an early lease surrender in July 2016 of a 24,125 sq ft office building at Trinity Central, Solihull. Strip out works have been completed and a major refurbishment of the building is currently taking place at a cost of around £2.7m. This work is due to be completed in December 2017.

Occupancy

Our year-end vacancy rate was 4.2% (166,989 sq ft), of which 1.2% (46,892 sq ft) had been returned to us in June 2017.

Valuation

The external valuation of the Group's investment and development portfolio at 30 June 2017 totalled £386.9m (2016: £364.2m) leading to a valuation surplus of £13.0m being recognised in the Group's statement of comprehensive income.

The initial yield on the portfolio decreased by 0.2% to 6.2% (2016: 6.4%) and the equivalent yield also decreased by the same amount to 7.0% (2016: 7.2%).

	Initial yield 2017	Initial yield 2016	Equivalent yield 2017	Equivalent yield 2016
Industrial	6.4%	6.5%	7.0%	7.2%
Office	6.3%	7.2%	7.6%	8.0%
Retail	5.6%	5.7%	6.3%	6.4%
Total	6.2%	6.4%	7.0%	7.2%

Outlook

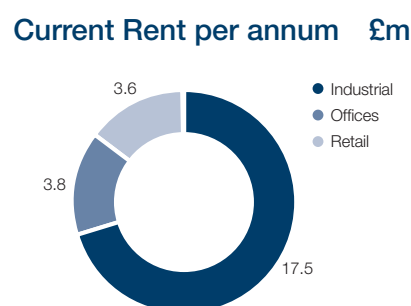
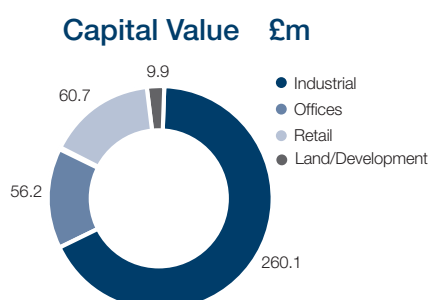
Despite the uncertainty that enveloped the UK after the vote to leave the EU, our portfolio has remained resilient. This is especially true of the industrial properties, where both occupational and investor demand currently remains high.

With negotiations now underway between the UK and the EU, inflation increasing and the residual political and economic effects of the recent snap General Election, a hint of caution has become evident in both the property market and wider economy.

Our existing portfolio continues to offer rental growth potential and our low net debt to equity gearing at 26% and £40.5m of undrawn facilities provides us with the means to take advantage of any buying opportunities that may arise should market conditions deteriorate over the next 12 months.

Justin Parker
Managing Director

4 September 2017



Kings Hill, Wednesbury



Finance Review

David Wooldridge, Finance Director



The Group's underlying business performed well over the year, with rental income increased through lease renewals, rent reviews, new lettings and property acquisitions.

Our underlying cost base was largely unchanged, leading to a £0.9m increase in underlying pre-tax profit, which has supported the 3% increase in ordinary dividends.

As announced in the last annual report, in August 2016 we refinanced the £64.0m of facilities we had with HSBC Bank plc. The facilities were due to expire in March 2018, but we have now renewed for a five year term expiring in August 2021, and have reduced the margin payable on the facilities by around 30%.

We also took advantage of the low interest rate environment to raise a further £20m of long-term debt finance by repaying the £20m Lloyds Bank 2012 term loan, which had just over 5 years remaining, out of the proceeds of a £40m 15 year term loan with Scottish Widows. Completion of the transaction, which saw the interest rate on the new facility of 3.5% being set at a significantly lower level than the 5.2% previously paid on the 2012 term loan,

took place in December 2016. A £1.2m early repayment charge was incurred on the refinancing, which impacts on statutory profit, but the amount is not included in the underlying profit measure or in EPRA earnings per share.

We remain conservatively financed, with the refinancings in the year extending both the total amount of our facilities and moving beyond normal bank facilities, as well as providing us with a diversified maturity profile. No facilities are due to expire before 2021, our balance sheet remains strong and our loan to value is only 20%.

Income

Gross rental income increased from £22.9m to £23.7m and property costs, net of service charge income, increased from £0.9m to £1.0m, leading to an increase in net rental income of £0.7m to £22.7m.

Administration expenses increased slightly to £3.4m (2016: £3.3m).

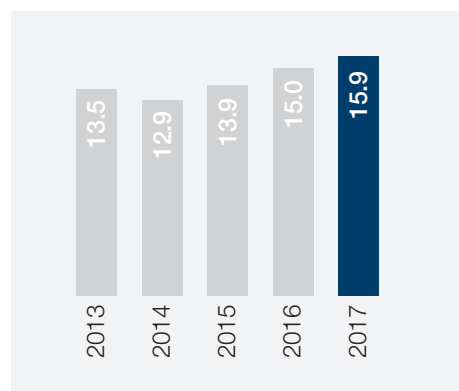
Excluding the early repayment costs of £1.2m, finance costs decreased by £0.3m, as we benefited from the reduction in margin on the HSBC facilities and the lower interest rate on the Scottish Widows loan.

Underlying pre-tax profit increased from £15.0m to £15.9m.

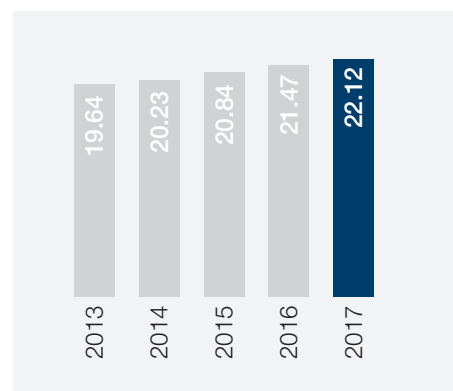
Statutory pre-tax profit increased from £25.2m to £29.6m, mainly as a result of the above, as well as the revaluation surplus of £13.0m (2016: £10.2m) and profit on disposal of investment property of £1.9m (2016: £nil).

Basic and diluted earnings per share increased from 39.86p to 46.63p and EPRA earnings per share, which excludes the valuation surplus, profit on sale of investment property and early repayment costs, increased by 4.9% to 25.05p (2016: 23.88p).

Underlying Pre-tax Profit £m



Ordinary Dividend pence



Taxation

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

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

Underlying financial performance

	Total £m	Investment/ development* £m	Trading properties £m	Other items £m
2017				
Gross rental income	23.7	23.7	–	–
Service charge income	1.0	1.0	–	–
Total revenue	24.7	24.7	–	–
Property costs	(2.0)	(2.0)	–	–
Net property income	22.7	22.7	–	–
Sale of trading properties	–	–	–	–
Property outgoings on trading properties	–	–	–	–
Net income from trading properties	–	–	–	–
Administration expenses	(3.4)	(3.4)	–	–
Operating profit before net gains on investment	19.3	19.3	–	–
Profit on disposal of investment and development properties	1.9	–	–	1.9
Net gains on revaluation	13.0	–	–	13.0
Operating profit	34.2	19.3	–	14.9
Finance costs	(3.4)	(3.4)	–	–
Early repayment costs	(1.2)	–	–	(1.2)
Total finance costs	(4.6)	(3.4)	–	(1.2)
Profit before tax	29.6	15.9	–	13.7
2016				
Gross rental income	22.9	22.9	–	–
Service charge income	0.9	0.9	–	–
Total revenue	23.8	23.8	–	–
Property costs	(1.8)	(1.8)	–	–
Net property income	22.0	22.0	–	–
Sale of trading properties	–	–	–	–
Property outgoings on trading properties	–	–	–	–
Net income from trading properties	–	–	–	–
Administration expenses	(3.3)	(3.3)	–	–
Operating profit before net gains on investment	18.7	18.7	–	–
Net gains on revaluation	10.2	–	–	10.2
Operating profit	28.9	18.7	–	10.2
Gross finance costs	(3.7)	(3.7)	–	–
Total finance costs	(3.7)	(3.7)	–	–
Profit before tax	25.2	15.0	–	10.2

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

Finance Review

continued

Dividend

The Group moved to quarterly dividends with effect from October 2016.

An interim dividend of 9.88p per share (2016: 9.59p) was declared in February 2017, with 4.94p per share paid in April 2017 and 4.94p per share paid in July 2017.

Dividends totalling 12.24p per share (2016: 11.88p) are being declared in respect of the 30 June 2017 financial year, making the total in respect of the year ended 30 June 2017 22.12p per share (2016: 21.47p), an increase of 3% over the prior year. The dividends consist of a quarterly dividend of 5.15p and a final dividend of 7.09p. The quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The quarterly dividend of 5.15p will be paid on 16 October 2017 to Shareholders on the register at the close of business on 15 September 2017.

The final dividend of 7.09p will, if approved by Shareholders at the AGM, be paid on 15 January 2018 to Shareholders on the register at the close of business on 15 December 2017.

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

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

The interim, quarterly and final dividends paid and proposed in respect of the financial year of 22.12p amount to 88% of the EPRA earnings per share figure of 25.05p, and are covered 1.13 times by that earnings measure.

Net assets

Net assets increased by £16.1m in the year, from £280.6m to £296.7m, due to £15.9m of underlying pre-tax profit, a revaluation surplus of £13.0m, profit on disposal of investment property of £1.9m and share-based payment charges of £0.2m, offset by ordinary dividends of £13.7m and an early repayment interest cost of £1.2m on the refinancing of the Lloyds term loan.

Net asset value per share increased by 26p, from 443p to 469p, and EPRA net asset value per share increased by 25p, to 471p.

Financing and cash flow

Operating cash flow was £1.8m higher at £17.1m. Cash outflows in respect of property acquisitions and capital expenditure amounted to £11.4m and borrowings increased by £5.7m.

Equity dividends paid in the year totalled £16.7m, compared to £13.2m in the prior year, with the increase due to the introduction of quarterly dividend payments with effect from October 2016.

	2017 £m	2016 £m
Net cash generated from operations	21.3	18.6
From investment and development properties	21.3	18.6
From trading properties	–	–
Net interest paid	(4.2)	(3.3)
Taxation	–	–
Operating cash flow	17.1	15.3
Property acquisitions and development	(11.4)	(4.1)
Property disposals	4.0	–
Net expenditure on property, plant and equipment	–	(0.1)
Movement in borrowings	5.7	2.3
Equity dividends	(16.7)	(13.2)
Net movement in cash	(1.3)	0.2

As previously disclosed, the majority of the Group's debt facilities were refinanced in the year. On 31 August 2016 the Group refinanced the HSBC term loan and revolving credit facilities, which now expire in 2021, a new £40m 15 year loan was taken out with Scottish Widows in December 2016 and the 2012 Lloyds term loan (£20m) was repaid in the same month. The Group's £1.0m overdraft was renewed for the year to November 2017 and we expect to renew the overdraft for a further twelve months.

The table below shows the position as at 30 June 2017.

Borrowing	Expiry year	Available £m	Drawn £m	Undrawn £m
HSBC overdraft	2017	1.0	–	1.0
HSBC Revolving Credit Facility	2021	44.0	4.5	39.5
HSBC term loan	2021	20.0	20.0	–
Lloyds 10 yr term loan	2023	20.0	20.0	–
Scottish Widows 15 yr term loan	2031	40.0	40.0	–
Preference shares	–	0.7	0.7	–
		125.7	85.2	40.5

Of the £85.2m of drawn debt shown in the table above, 100% is at fixed rates or covered by interest rate caps.

Our average cost of total debt facilities at 30 June 2017 was 3.1% (2016: 4.1%) or 3.6% on drawn amounts (2016: 4.4%). The weighted average term remaining on total debt facilities is 7.7 years (2016: 5.5 years, taking into account the HSBC refinance in August 2016).

Analysis of borrowings at 30 June 2017

	2017 £m	2016 £m
Borrowings from revolving credit facility 2021	4.5	18.0
HSBC term loan 2021	19.8	19.9
Lloyds term loan 2022	–	19.7
Lloyds term loan 2023	20.0	20.0
Scottish Widows term loan 2031	39.3	–
Preference share capital	0.7	0.7
Debt and preference share capital	84.3	78.3
Cash and short-term deposits	(5.8)	(7.1)
Net debt	78.5	71.2
Net assets	296.7	280.6
Net debt to equity gearing	26%	25%

David Wooldridge
Finance Director
4 September 2017

Principal Properties

Industrial	Area sq ft
Access Point, Leamington Spa	48,147
Amber Way, Halesowen	61,933
Apex Park, Worcester	116,400
Barton Business Park, Barton-under-Needwood	70,182
Bewdley Road, Stirchley	54,220
Birchley Island, Oldbury	41,534
Bull Ring Trading Estate, Birmingham	69,054
Camp Hill, Birmingham	124,270
Coleshill Trading Estate, Birmingham	180,210
Coleshill Trade Park, Birmingham	31,993
Coombswood Business Park, Halesowen	16,974
Crompton Fields, Crawley, West Sussex	160,551
Enterprise Trading Estate, Dudley	170,001
Flagstaff 42, Ashby-de-la-Zouch	51,151
Forge Trading Estate, Halesowen	77,102
Forward Park Trading Estate, Birmingham	54,872
Golden Cross, Aston	76,722
Grange Park, Northampton	86,018
Hazelwell Mills Trading Estate, Stirchley	95,908
Kings Hill Business Park, Wednesbury	126,295
Knightsbridge Park, Worcester	48,145
Lancaster Gate, Birmingham	11,650
Long Acre Trading Estate, Birmingham	61,640
Meridian Park, Leicester	28,002
Middlemarch, Coventry	45,092
Milton Point, Milton Keynes	41,126
Mucklow Hill Trading Estate, Halesowen	97,254
Neo Park, Tyseley, Birmingham	55,139
Nexus Point, Birmingham	30,192
Redfern Industrial Park, Tyseley	41,499
Redfern Park Way, Tyseley	36,000
Redwood Trade Park, Oldbury	61,207
Roman Park, Coleshill	84,916
St Andrews Trading Estate, Birmingham	29,705
Shannon Way, Tewkesbury	64,346
Shenstone Trading Estate, Halesowen	168,621
Shire Business Park, Worcester	110,345
Star Gate, Birmingham	87,315
Tachbrook Link, Leamington Spa	85,312
Triton Park, Rugby	77,698
Vantage One, Birmingham	34,920
Wednesbury One, Wednesbury	172,469
Yorks Park, Dudley	157,656

Offices	Area sq ft
Apex House, Worcester	18,606
Apex Park, Worcester	28,080
Aztec West, Bristol	31,256
Compton Court, Coventry	15,790
Trinity Central, Solihull	24,125
Dukes Gate, Chiswick, London	17,761
Grove Park, Leicester	20,829
Mucklow Office Park, Halesowen	34,703
Oak Tree Court, Coventry	30,000
Quinton Business Park, Birmingham	23,154
60 Whitehall Road, Halesowen	20,856
Retail	Area sq ft
Birchley Island, Oldbury	56,181
131/148 High Street, Bordesley	12,000
Church Gate, Leicester	19,203
202-208 High Street, Harborne	24,681
Kings Heath Retail Park, Kings Heath	16,243
64/67 High Street, Stourbridge	33,482
Prospect Way, Halesowen	32,000
Tewkesbury Road, Cheltenham	17,000
Torrington Avenue, Coventry	128,500

Principal Risks and Uncertainties

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

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

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

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

EU Referendum

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

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

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

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

Viability Statement

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

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

A three year period (2016: three year period) has been used for the assessment. This time frame is considered appropriate as it complies with the Group's internal forecast period and is a reasonable period for matters including the assessment of income, the availability of existing debt funding and potential access to additional debt funding if required.

Based upon the assessment outlined above, subject to any significant events outside of the control of the Group, the Directors have a reasonable expectation that the Group will be able to continue operations and meet its foreseeable liabilities as they fall due over the period to 30 June 2020.

Going concern

As at 30 June 2017 the Group had £39.5m of undrawn term bank facilities and had drawn £4.5m from its HSBC £44m 2021 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this report, was undrawn. The Group has substantial headroom in its debt covenants and has a secure income stream from a diversified source pool of occupiers, without undue reliance on a single tenant.

Given these facilities, which expire at the earliest in 2021, the Group's low level of net debt to equity gearing of 26% and £101.7m 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.

Key risk areas for the Group

Risk Area	Mitigation	Movement in the period
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 	<p>↔ There is a shortage of quality industrial stock for both occupiers and investors in our market.</p> <p>The EU referendum result and snap General Election have created uncertainty in property market prospects.</p>
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 net debt to equity 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 	<p>↔ Interest costs have remained at historic lows and significant refinancings have been completed in the year, increasing the amount of the Group's debt facilities, reducing the average rate of interest on the facilities and increasing the duration of the facilities.</p>
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 	<p>↔ The Group has a small team of employees with a very low level of turnover. Remuneration packages and training needs are regularly reviewed.</p>
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 	<p>↔ No speculative development was undertaken in the year.</p> <p>One pre-let unit is currently being developed.</p> <p>At 30 June 2017 development land represented less than 3% of the value of the Group's investment and development portfolio.</p>

Key to Risk Trend

↔ No change

↑ Trend up

↓ Trend down

Trinity Central, Solihull



Computer generated image.

Corporate and Social Responsibility

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

Human Rights

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

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

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

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

We aim to promote employee well-being through flexible working, medical support and access to gym facilities. One member of staff has left in the year, and one new member of staff has joined the Group.

The Group has not used temporary employees or contractors for employee roles during the period under review.

Due to the small number of employees in the Group (11 employees and 3 non-executive directors), no strategic targets are set by the Board in this area. Although the Group does not have a separate human rights policy, we seek to avoid business practices that would adversely affect human rights. Our operations, as a property investor and developer, are based solely within the United Kingdom, and are considered to be a low risk in relation to human rights issues. No issues relating to human rights have arisen in the current or prior years.

Equality and diversity

As at 30 June 2017, 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	3	1
All other staff	–	4

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

Environmental and social policy

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

Environmental policy

There are five main areas of the environmental policy:

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

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

Social policy

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

Planning

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

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.

Review and responsibility

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

Health and Safety

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

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

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

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

Greenhouse gas emissions

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

Sources of greenhouse gas emissions	2016/17 tCO ₂ e	2015/16 tCO ₂ e
Scope 1		
Gas, refrigerants and car	75	107
Scope 2		
Landlord controlled	238	266
Total footprint	314	374
Intensity measure	tCO₂e/sq ft	tCO ₂ e/sq ft
Emissions per 000s sq ft	0.7	1.0

We have used the operational control method to outline our carbon footprint boundary. Tenants' usage or emissions are not included as we do not have control over those items. Emissions from vacant space have been included.

We have measured emissions based on the GHG Protocol Corporate Accounting Standard (revised edition) and guidance provided by the UK's Department for Environment, Food and Rural Affairs (DEFRA) on mandatory carbon reporting. The emissions factors and conversions used were from the DEFRA greenhouse gas reporting tool.

The figures above show that the absolute footprint has decreased both for Scope 1 and 2 emissions. The decrease in electricity (Scope 2 emissions) is partly due to a lower emissions factor as the energy mix has changed, and the decrease in Scope 1 emissions attributable to less gas usage and company owned vehicle mileage.

Donations

No political contributions were made during the year (2016: £nil) and donations to local and national charities amounted to £2,020 (2016: £2,557).

Board statement

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

Strategic report approval

The Strategic Report, outlined on pages 02 to 20, incorporates the Chairman's Statement, Strategy and Business Model, Property Review, Finance Review, Principle Risks and Uncertainties, and Corporate and Social Responsibility.

By order of the Board

David Wooldridge
Company Secretary
4 September 2017

Governance Report

Chairman's Introduction to Governance



Dear Shareholder

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

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

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

Due to the number of board changes agreed in the prior year, with Jock Lennox retiring in November 2016 and Peter Hartill replacing him as Audit Committee Chairman, there haven't been any Nomination Committee meetings held in the twelve month period.

I look forward to meeting you at our annual general meeting on Tuesday 14 November 2017.

Rupert Mucklow
Chairman

4 September 2017

Directors and Officers



Rupert Mucklow BSc

Chairman[‡]

Aged 54

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 52

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 45

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



Ian Cornock MRICS

Senior Independent Non-Executive^{*†‡}

Aged 54

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



Stephen Gilmore LLB

Independent Non-Executive^{*†‡}

Aged 62

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



Peter Hartill FCA

Independent Non-Executive^{*†‡}

Aged 68

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

* 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

Auditor

KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham, B4 6GH

Tax adviser

Deloitte LLP
Four Brindleyplace
Birmingham, B1 2HZ

Stockbrokers

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

Stifel Nicolaus Europe Limited
150 Cheapside
London, EC2V 6ET

Bankers

HSBC Bank plc
120 Edmund Street
Birmingham, B3 2QZ

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

Scottish Widows Ltd
25 Gresham Street
London, EC2V 7HN

Corporate Advisers

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

Property Valuers

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

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

Registrars

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

Solicitors

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

Pinsent Masons LLP
3 Colmore Circus
Birmingham, B4 6BH

Financial PR

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

Senior Management

Stuart Haydon MRICS

Portfolio Manager

Gemma Lane ACMA CGMA

Company Accountant

David Tuft

Property Manager

Mark Vernon MRICS

Investment

Statement of Corporate Governance

UK Corporate Governance Code

The Company has complied with the Code provisions set out in the 2014 UK Corporate Governance Code throughout the year ended 30 June 2017.

As reported last year, the Board worked towards compliance with the 2014 UK Corporate Governance Code ("the 2014 Code") by introducing the 2015 Performance Share Plan, which introduced clawback and malus provisions and holding periods to the Group's Long-Term Incentive Plan. The new plan was approved by Shareholders at the Annual General Meeting in November 2015.

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 year under review, the Board comprised three executive directors: Rupert Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director). Three non-executive directors held office for the whole of the financial year: Ian Cornock (Senior Independent Non-Executive), Stephen Gilmore and Peter Hartill. Jock Lennox resigned from the Board following the AGM in November 2016.

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

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

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

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

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

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

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

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

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.

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

Rupert Mucklow and Stephen Gilmore are seeking re-election as directors at the 2017 Annual General Meeting.

Rupert Mucklow (54), Chairman, joined the Group in 1990, was appointed as an executive director in 1995, managing director in 1996, deputy chairman in 2001 and executive chairman in 2004.

Stephen Gilmore (62), was appointed a non-executive director on 13 May 2008, having previously been partner in charge of the Birmingham office of Cobbetts LLP. As he has served as a non-executive director for over nine years, in accordance with the Company's Articles of Association and the UK Corporate Governance Code, he is accordingly retiring from office and offering himself for reappointment by shareholders at the Annual General Meeting.

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 2017 is as follows:

Number held	Board	Audit	Remuneration	Nomination
Rupert Mucklow	10/10	n/a	n/a	0/0
Justin Parker	9/10	n/a	n/a	n/a
David Wooldridge	10/10	n/a	n/a	n/a
Ian Cornock	10/10	3/3	2/2	0/0
Stephen Gilmore	10/10	3/3	2/2	0/0
Jock Lennox*	4/4	1/1	1/1	0/0
Peter Hartill	9/10	2/3	2/2	0/0

n/a indicates not a member of that committee.

*Jock Lennox resigned as a director on 15 November 2016.

Board Committees

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

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

Audit Committee

Peter Hartill has been designated as the member of the Audit Committee with recent and relevant financial experience, being a chartered accountant and former partner of Deloitte LLP. He is also chair of the audit committee of The Paragon Group of Companies 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 28 to 31.

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), Jock Lennox, Ian Cornock (Senior Independent Non-Executive) and Peter Hartill until 15 November 2016. From 15 November 2016 the Remuneration Committee comprised Stephen Gilmore, Peter Hartill and Ian Cornock. 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 32 to 49.

Statement of Corporate Governance

continued

Nomination Committee

The Nomination Committee comprised Rupert Mucklow (Group Chairman), Ian Cornock (Senior Independent Non-Executive), Stephen Gilmore, Peter Hartill and Jock Lennox until 15 November 2016. From 15 November 2016 the Nomination Committee comprised Rupert Mucklow, Ian Cornock, Stephen Gilmore and Peter Hartill.

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 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Key features of the system of internal control include:

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

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

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

The Board does not allow facilitation payments.

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

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

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

Statement on internal control

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

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

1. Financial reporting

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

2. Quality and integrity of personnel

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

3. Operating unit controls

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

4. Computer systems

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

5. Controls over central functions

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

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

6. Role of the executive directors

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

Audit Committee Report

Peter Hartill, Chairman, Audit Committee



Dear Shareholder,

Welcome to the Report of the Audit Committee.

I am pleased to present my first report on behalf of the Audit Committee having succeeded Jock Lennox on his retirement. I would like to thank Jock for his contribution.

Main focus 2016/17

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

Property valuations are a key focus in preparing the financial statements. The Committee met with the Company's valuer, Cushman & Wakefield, to ensure it was comfortable with the process and their independence.

I trust you will find this report to be a useful summary of the work performed by the Committee during the year under review and I look forward to seeing you at the AGM in November.

Peter Hartill
Chairman of the Audit Committee
4 September 2017

Composition of the Audit Committee

The Audit Committee comprised:

Peter Hartill – Chairman (from 15 November 2016)
Jock Lennox (Chairman to 15 November 2016, when he left the Board and the Committee)
Stephen Gilmore
Ian Cornock

Responsibilities

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

Meetings

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

Meetings are attended by the Committee members and the external auditor, as well as, by invitation, the executive directors. The attendance of the Committee members is shown on page 25.

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

2017 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 assumptions, sensitivities and principal risks identified by management in their assessment prepared to support the Viability Statement disclosure, and whether they are reasonable in light of the sector in which the business operates and adequately reflect whether the period chosen is a fair reflection of the forecast period considered by management.

Primary areas of judgement in relation to the 2017 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.

Audit Committee Report

continued

Property valuation

The valuation of the Group's property portfolio, £386.9m at 30 June 2017, 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 valuers methodology, receives commentary from management and other supporting market information. Members of the Committee attend the meeting of the valuer and external auditor on a regular basis.

Covenant compliance

Although covenant compliance is a matter for the whole Board, and the Group remains lowly geared at 26%, the Committee consider reports by management to support the Group's going concern statement and Viability Statement in financial reports, which include covenant headroom, sensitivity analysis, undrawn facilities and forecasts. The external auditor shares their review of these papers and the assumptions with the Committee.

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

Risk management

The whole Board reviews internal controls and further details are included in the Governance Report on page 26.

A summary of the key risks and uncertainties to which the business is exposed is set out on page 17.

Internal audit

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

The Audit Committee has the power to commission specific additional assurance work from time to time as it sees fit. In the 2017 financial year the Committee noted the further work undertaken by a third party to review the Group's approach to cyber security.

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

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

The review of the 2016 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 for the financial year ended 30 June 2016, KPMG LLP, performed effectively.

No non-audit fees, other than the half-year review, were paid to KPMG LLP in respect of the financial year ended 30 June 2017.

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

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

The key features of the policy are as follows:

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

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

KPMG LLP were appointed following completion of the 2015 Audit, after a tender process was undertaken. They have signified their willingness to be reappointed as the Group's external auditors. Ordinary resolutions reappointing them as auditor and authorising the Audit Committee to set their remuneration will be proposed at the 2017 Annual General Meeting.

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

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

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

Whistleblowing

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

Board Report on Directors' Remuneration

Stephen Gilmore, Committee Chairman



Annual statement

Dear Shareholder,

For those of you who keep track of these things it may come as something of a surprise that you are hearing from me again in the capacity of chairman of the Remuneration Committee, having served out the normal nine year term as a non-executive director of the Company in May of this year. The explanation is that the Chairman has asked me to continue as a non-executive director so as to provide some continuity following the appointments in quick succession of my fellow non-executive directors Ian Cornock and Peter Hartill, a request to which I was happy to accede, so long as the shareholders were content to have me. That, of course, remains to be seen.

The support that shareholders gave the Board for both the Remuneration Policy and the Remuneration Report last year has led the Remuneration Committee to conclude that shareholder satisfaction with executive pay at Mucklow remains at a high level, which is gratifying given the unabated controversy that surrounds the subject generally; I hope that this Remuneration Report will attract a similar level of support.

Our ethos and policy has not changed over the past year. However, as suggested in my report to you last year, the workings of the performance-related element of executive remuneration under the performance share plan adopted in 2007 (2007 LTIP) are less than perfect. The 2007 LTIP still has an award to work through for next year before the awards made to Executive Directors under the performance share plan adopted at the 2015 Annual General Meeting (2015 PSP) become eligible to vest in 2020. The shortcomings of the 2007 LTIP have come sharply into focus as we approach the end of another performance period which, at the time of writing, seems likely to result in no vesting of the awards made in 2014 for the participants in

the 2007 LTIP. If it turns out that way, it will be the third year in succession that excellent performance by the Company has not resulted in vesting of share options under the 2007 LTIP. This would be regrettable and not at all what was intended when the 2007 LTIP or, for that matter, the 2015 PSP (together PSPs) were adopted. It seems inevitable to me that the defects in the 2007 LTIP, will flow through to the 2015 PSP. I touched upon this issue in my letter last year and I deal with it in more detail later in this letter.

The performance of the awards under the 2007 LTIP contrast starkly with the performance of the Company over the 10 years that it has been a REIT as shown in the table on page 34. To recognise that performance the Remuneration Committee has decided to award a small cash bonus to all the Executive Directors, details of which are set out later in this letter.

Ethos

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

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

As I say, the Remuneration Committee perceives there to be shortcomings in the functioning of the 2007 LTIP which I deal with at some length below. These shortcomings have not affected the Company's business strategy but the Remuneration Committee needs to address them so that the performance related element of the Executive Directors' remuneration reflects both the performance of the Company and the interests of its shareholders.

Policy

There are two principal elements to Executive Director remuneration, namely the pay and benefits package and the 2007 LTIP (under which no further awards will be made but which still has an unvested award which may vest in 2018) and the 2015 PSP, which was adopted to replace the 2007 LTIP following shareholder approval at the 2015 AGM.

Pay and benefits

It is important to shareholders that the pay and benefits package is sufficient to attract and retain the high quality Executive Director team that is necessary to deliver the performance required of them by the Company. We last formally benchmarked Executive Director remuneration packages against comparable businesses in 2010 when they were independently reviewed by remuneration consultants although, as mentioned in my letter to you last year, we did take advice from Deloitte LLP concerning the Chairman's and the Finance Director's salaries in 2016.

There are statutory limits on annual pension contributions and overall individual pension fund values. The Company's policy in circumstances where an Executive Director is affected by these limits is to make a payment to the Director concerned in lieu of their contractual 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.

Since we last reported to shareholders, the Remuneration Committee has increased the Executive Directors' basic remuneration by 3% with effect from 1 July 2017 in line with the increase in ordinary dividend and other employees of the Company.

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

2007 LTIP and 2015 PSP

As mentioned above, despite the Company having delivered good trading results over the three-year performance period, this year the 2007 LTIP has again not benefited the participating Executive Directors. Last year, when the same thing happened, I noted the reasons for it and I commented that although it was an odd result, the Remuneration Committee was relatively happy that, overall, the position would work out fairly for the Shareholders and the Executive Directors. That is no longer the case and over the coming year we will be looking at ways to remedy the position. This is because the alignment of shareholders' and Executive Directors' interests under both our PSPs is becoming something of a one-way street: when shareholders do not fare so well neither do the participants in the PSPs, but the reverse is not always true; sometimes (too often it seems) shareholders may do well but, because of the workings of the PSPs, the Executive Directors may not be rewarded. That is not how performance-related remuneration should work.

As I said last year, the Remuneration Committee took the view that, despite the years when participating executives did not benefit from the vesting of PSP awards, overall they would benefit from the enhancement of shareholder value through their participation in the PSPs, and the increase in value of their existing holdings of shares in the Company. Of course, this can only happen if awards made under the PSPs vest, but the 2012 and 2013 awards did not vest in 2015 and 2016 and, as mentioned above, it seems unlikely that the 2014 award will vest this year. Accordingly, the benefits that we expected participating Executive Directors (currently Justin Parker and David Wooldridge) to receive have not materialised. Furthermore, the Executive Directors' increased shareholding target of twice basic remuneration (which was introduced in 2015) is significantly more difficult to attain if the PSPs do not result in the vesting of share options.

This has led the Remuneration Committee to the conclusion that the 2007 LTIP is not currently functioning as it should and that it is very likely that the 2015 PSP will suffer from the same defects. That is good for neither the shareholders nor the Executive Directors.

Board Report on Directors' Remuneration

continued

The essence of the problem is this: awards made under the PSPs are principally dependent upon a measure of total shareholder return (TSR) compared against a comparator group of companies (those in the FTSE EPRA NAREIT UK Index (which is written into our Remuneration Policy and so is not susceptible to amendment without a shareholder vote in favour)). Certain companies within the comparator group have a tendency to volatility in their performance. This disadvantages a company which performs very steadily over the performance period, as against a much more volatile company which, over the same performance period, may be recovering from a low position and so delivers a greater TSR. The anomalous result is that volatility in the comparator group can disadvantage the participating Executive Directors, but it is a lack of volatility in the Mucklow performance which we believe is prized by shareholders. To that extent, the PSPs seem not to align shareholder and Executive Director interests.

To illustrate this, I set out below a table showing the TSR performance of the companies that have been REITS over the whole of the past 10 years. From this it can readily be seen that Mucklow has delivered a very strong performance over the 10 year period. Unfortunately the Executive Directors have not participated fully in the fruits of that performance through the 2007 LTIP as can be seen from the table below.

Total shareholder return for REIT companies for the 10 years ended 30 June 2017

Shaftesbury plc	174.3%
Primary Health Properties plc	106.0%
Big Yellow Group plc	99.7%
A & J Mucklow Group plc	99.5%
Derwent London plc	76.5%
Great Portland Estates plc	51.8%
McKay Securities plc	3.0%
Land Securities Group plc	-0.6%
FTSE EPRA/NAREIT UK Index	-2.3%
SEGRO plc	-3.7%
The British Land Co plc	-9.2%
Hammerson plc	-12.2%
Intu Properties plc	-45.9%
Workspace Group plc	-59.0%
The Local Shopping REIT plc	-67.7%

Source: Bloomberg

The Remuneration Committee has concluded that the 2007 LTIP has not rewarded the Executive Directors with a level of performance related remuneration that reflects the Company's performance.

In the forthcoming year the Remuneration Committee will consider what amendments could be made to the 2015 PSP to ensure that participants are rewarded by reference to Mucklow's performance, and that reward for good performance is not undermined by volatility within the comparator group. Obviously I do not know what the outcome of those deliberations will be, and it may be that other strategies will be adopted to ensure that the Executive Directors' performance related remuneration is fully aligned with both shareholders' interests and performance of the Company. What I can say is that if the Remuneration Committee decides that a change is required, it will almost certainly require a change in the Company's Remuneration Policy and so shareholders will be given the opportunity to consider and vote on any proposed changes before they are implemented.

Cash Bonuses

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

Last year I said that the Remuneration Committee's approach to cash bonuses was such that they were very unlikely to be paid, and that the circumstances in which the Remuneration Committee would exercise its discretion to pay cash bonuses were not likely to arise. I pointed out that cash bonuses had not been paid for many years. However, in the light of the exceptionally strong performance of the Company over the 10 years since it became a REIT (and bearing in mind that for the Executive Directors that performance has not been reflected in the performance of the 2007 LTIP) the Remuneration Committee has decided to exercise its discretion in favour of the Executive Directors (including the Chairman) by awarding each of them a cash bonus payment of £40,000. The Executive Directors were all Executive Directors of the Company throughout that 10 year period and so all contributed to its success.

Other work of the Remuneration Committee

As well as determining the pay and benefits packages of the Executive Directors and approving the making and vesting of awards under the 2007 LTIP and the 2015 PSP, the Remuneration Committee offers guidance to the Executive Directors in relation to pay policy within the Company generally.

I continue to keep myself abreast of developments in what remains a contentious and interesting area of corporate life.

Non-Executive Directors' remuneration

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

The future

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

Shareholders will be asked to consider the Remuneration Policy again in 2018. We welcome an open dialogue with our shareholders and I will be happy to receive comments or address queries regarding the Company's Remuneration Policy and the Remuneration Report which appears on the following pages. I would particularly welcome questions or comments on alternative approaches to performance-related remuneration, in the light of my own comments on the subject in this letter.

Stephen Gilmore

Chairman of the Remuneration Committee

4 September 2017

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 Directors' Remuneration Report is split into two parts:

- The Directors' Remuneration Policy, included on pages 32 to 44 of the 2015 Annual Report and Financial Statements, sets out the policy for the three years beginning on the date of the Company's 2015 AGM, held on 10 November 2015.
- The Annual Report on Remuneration sets out the payments made and awards granted to the directors over the period 1 July 2016 to 30 June 2017 and how the Company intends to implement the policy in the period 1 July 2017 to 30 June 2018, which, together with the Remuneration Committee Chairman's Statement, is subject to an advisory shareholder vote.

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

Directors' Remuneration Policy

Remuneration principles

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

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

Future policy table

A summary of the Company's Directors' Remuneration Policy, for three financial years starting in 2015/16, for directors is shown overleaf.

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance Conditions
Base Salary	To attract, retain and motivate executives of the calibre required to deliver the Company's strategy and successfully manage the interests of shareholders.	Base salary is paid in cash on a monthly basis and is pensionable. It is reviewed on an individual basis 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: — Company car — Private health care Benefits in kind are not pensionable.	Benefits will be consistent with market practice for similar roles.	No performance conditions apply.
Cash bonus plan	To reward executives for exceptional performance 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: — financial performance in the year — individual performance in the year — successful achievement of long-term strategic objectives

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance Conditions
2015 Performance Share Plan ("2015 PSP")	To reward executives for delivering the Company's long term strategy and creating sustainable shareholder returns. The use of shares acts as a retention tool and aligns the interests of executives with shareholders.	<p>Grants of nominal priced options are made annually at the discretion of the Committee.</p> <p>Options will not normally vest and be capable of exercise before the end of the three year performance period, and will vest only to the extent that the performance conditions are met.</p> <p>The Committee has the discretion to apply a two-year holding period to options, beginning at the end of the applicable performance period and ending two years thereafter. A holding period will normally apply to options granted to executive directors. A service condition applies during the holding period so that awards do not vest until the end of the holding period.</p> <p>Options are exercisable from the later of the end of the performance period and the end of any holding period (where relevant) once all conditions have been met. Options can then be exercised between that date and the tenth anniversary of the date of grant.</p> <p>Options will be subject to malus and clawback so that they may be amended, reduced, forfeited or subject to repayment on occurrence of certain events (including material misstatement of accounts, material failure of risk management or material reputational damage to the Company) from the date of grant to the date of the end of the holding period (or, if there is no holding period, the fifth anniversary of the date of grant).</p> <p>Participants are not eligible for dividend equivalents in respect of the performance period but the Committee may determine that dividend equivalents should be awarded in respect of any dividends paid on shares during an applicable holding period.</p>	<p>Non-executive directors and Rupert Mucklow will not participate in the 2015 PSP.</p> <p>Maximum value of options that may be granted: 75% of salary.</p>	<p>Vesting is subject to total shareholder return (TSR) vs. companies in the FTSE EPRA NAREIT UK index.</p> <p>Upper quartile: 100% of award will vest</p> <p>Median: 20% of award will vest</p> <p>Below median: award will lapse</p> <p>Pro-rata vesting in between median and upper quartile.</p> <p>Options will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance.</p> <p>The Committee retains discretion to vary the performance target applicable to outstanding options if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance target, and provided that the revised performance target is fair and reasonable and materially no more or less difficult to satisfy.</p>

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance Conditions
2007 Performance Share Plan ("2007 LTIP")	To reward executives for delivering the Company's long-term strategy and creating sustainable shareholder returns.	Grants of nominal priced options which normally vest at the end of the three year performance period and remain exercisable until the tenth anniversary of the date of grant. Dividend equivalents are not paid.	Non-executive directors and Rupert Mucklow do not participate in the 2007 LTIP. Maximum value of options that may be granted: 75% of salary.	Vesting is subject to total shareholder return (TSR) vs. companies in the FTSE EPRA NAREIT UK index. Upper decile: 100% of awards vest; Upper quartile: 66.6% of awards vest; Median: 20% of award will vest Below median: award will lapse Pro-rata vesting 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.
Share incentive plan ("SIP")	All employee share plan to encourage employees to acquire shares in the Company to align with shareholders.	Matching shares are offered on a 1:1 basis. Free shares are offered at the discretion of the Board. Unless a leaver, shares generally remain in the trust for at least 5 years. If a participant is a leaver within 5 years, shares are released and will usually be subject to an income tax charge.	Executive directors participate on the same basis as other employees. The maximum allocation of shares each year is: Partnership shares – lower of £1,800 and 3% of salary. Matching shares - £1,800. Free shares – Lower of £3,600 and 3% of salary.	No performance conditions apply.

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance Conditions
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 options under the 2007 LTIP and the 2015 PSP ("Options"), vested but unexercised Options, shares held by an executive director under any share plan that remain subject only to clawback conditions, and shares held in the SIP trust).</p> <p>Executive directors are expected to retain at least 25% of the gross number of shares acquired on the exercise of Options.</p>	<p>Applies to executive directors participating in the 2007 LTIP and the 2015 PSP.</p> <p>Expectation: 200% of base salary</p>	N/A

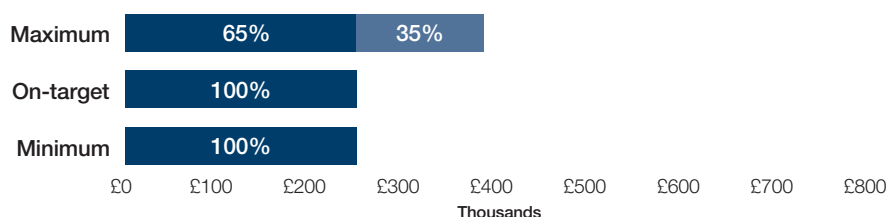
Notes to the policy table

- 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 2007 LTIP and the 2015 PSP to align the vesting of the award with shareholders' interests. Targets are reviewed annually by the Committee to ensure that they remain appropriately challenging and consistent with market practice.
- Other employees are remunerated on a basis similar to executive directors. All employees are entitled to participate in the SIP. All employees are considered for an annual cash bonus but bonuses are only payable in exceptional circumstances and are at the complete discretion of the Committee. Those in senior management roles are eligible to participate in the 2007 LTIP and the 2015 PSP at the invitation of the Committee. Awards under the 2007 PSP and the 2015 PSP and bonus levels are both set by reference to grade, and payment is made at the discretion of the Board. Pension and benefits are also provided to all employees, with levels set by reference to grade.
- 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. Awards under the 2007 PSP remain part of Directors' Remuneration Policy until they have vested.

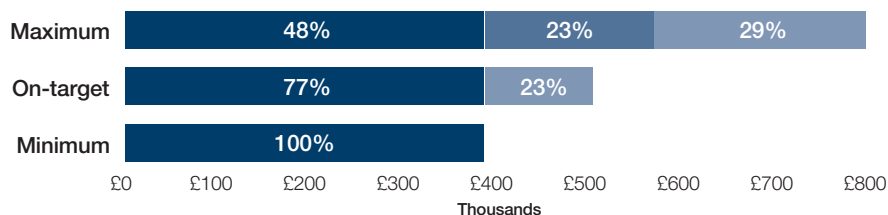
Illustration of application of Remuneration Policy

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.

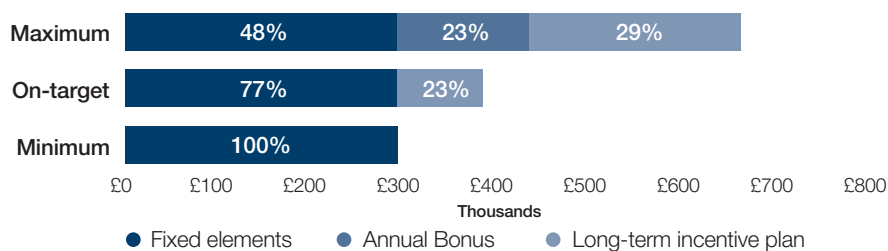
Rupert Mucklow



Justin Parker



David Wooldridge



The scenario charts assume:

- Fixed pay: base pay plus retirement benefits for the year ending 30 June 2018, plus the anticipated value of other benefits (assumed for this purpose to be the same as for the year ended 30 June 2017).
- Short-term incentives: maximum bonus paid at maximum performance and nil bonus paid for on-target and below on-target performance.
- Long-term incentives: 100% payout for maximum performance 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.

Board Report on Directors' Remuneration

continued

Non-Executive Directors' Remuneration Policy

Element	Purpose & link to strategy	Operation	Maximum opportunity	Performance Conditions
Non-executive directors' fees	To recruit and retain non-executives of the calibre required to provide oversight of the executives and assist the Company in setting and delivering its strategy.	<p>Fees are paid in cash on a monthly basis and are reviewed annually.</p> <p>Non-executive directors do not participate in any element of performance related pay and are not eligible for any pension benefit.</p> <p>No benefits are provided except for the occasional reimbursement of travel and/or hotel expenses in respect of attendance at board meetings.</p>	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 2007 LTIP and/or the 2015 PSP.

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

Service contracts

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

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

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

Director	Date of appointment or subsequent re-election	Re-election
Stephen Gilmore	11 November 2014	Every year (following the ninth anniversary of his appointment)
Ian Cornock	15 November 2016	Every 3 years
Peter Hartill	15 November 2016	Every 3 years

Policy on payment for loss of office for incentives

Annual bonus

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

2015 PSP

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

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

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

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

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

Board Report on Directors' Remuneration

continued

Statement of consideration of employment conditions elsewhere in the Company

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

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

Annual report on remuneration

Single total figure of remuneration for each director (audited)

Directors' emoluments	Basic salary/fees £000	Benefits in kind ⁱ £000	Bonus ⁱⁱ £000	LTIP ⁱⁱⁱ £000	Pension ^{iv} £000	Total £000
2017						
Executive						
Rupert Mucklow	220	22	40	–	–	282
Justin Parker	295	41	40	–	39	415
David Wooldridge	230	22	40	–	32	324
Non-executive						
Ian Cornock	37	–	–	–	–	37
Stephen Gilmore	37	–	–	–	–	37
Jock Lennox ^v	14	–	–	–	–	14
Peter Hartill	37	–	–	–	–	37
TOTAL	870	85	120	–	71	1,146
2016						
Executive						
Rupert Mucklow	280	24	–	–	17	321
Justin Parker	287	40	–	–	41	368
David Wooldridge	184	22	–	–	26	232
Non-executive						
Paul Ludlow	36	–	–	–	–	36
Stephen Gilmore	36	–	–	–	–	36
Jock Lennox	36	–	–	–	–	36
Ian Cornock	10	–	–	–	–	10
TOTAL	869	86	–	–	84	1,039

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

ii. As detailed by the Remuneration Committee Chairman on page 35, a discretionary bonus has been paid to the Executive Directors to take into account the long-term performance of the Company.

iii. The 2007 LTIP grants made in October 2012 and October 2013 did not vest.

iv. Justin Parker and David Wooldridge are members of a defined contribution pension scheme. Rupert Mucklow's pension benefits were made up of a salary supplement of £17,167 in 2016. Justin Parker's pension benefits are made up of pension contributions of £nil (2016: £30,000) plus salary supplement of £38,905 (2016: £11,410). David Wooldridge's pension benefits are made up of pension contributions of £10,000 (2016: £23,202) plus a salary supplement of £21,529 (2016: £2,578).

v. Resigned 15 November 2016.

2011, 2012 and 2013 LTIP vesting (audited)

Details of Options vesting in the year are included below. The performance condition applied to the 2011, 2012 and 2013 LTIP vesting is as set out in the policy table on pages 48 & 49.

	Justin Parker Option Exercise Year			David Wooldridge Option Exercise Year		
	2015	2016	2017	2015	2016	2017
Number of shares over which option may be exercised	62,609	57,093	44,427	40,205	36,663	28,529
Total shareholder return in performance period	69.22%	53.80%	18.56%	69.22%	53.80%	18.56%
Position in comparator group in performance period	5th of 14	12th of 14	15th of 17	5th of 14	12th of 14	15th of 17
Vesting level as a percentage of maximum	43%	0%	0%	43%	0%	0%
Number of shares over which option can be exercised	27,128	–	–	17,421	–	–
Share price (in pence) when option exercised	495	–	–	495	–	–
Value of shares when option vests and is exercised	£134,214	–	–	£86,190	–	–
Subscription price (25p/share)	(£6,782)	–	–	(£4,355)	–	–
Value of Option to executive	£127,432	–	–	£81,835	–	–
Average value of Options to executive over the three year period	£42,477			£27,278		

Scheme interests awarded during the financial year (audited)

2015 LTIP

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

Name of Director	Type of award	Basis of award	Number of shares awarded	Face value of award	Amount receivable for minimum performance	End of performance period
Justin Parker	Nominal cost Option	Annual award with performance conditions. Based on a percentage of salary (75%)	43,620	£221,372	20% of shares will vest	02/10/2019
David Wooldridge	Nominal cost Option	Annual award with performance conditions. Based on a percentage of salary (75%)	33,990	£172,500	20% of shares will vest	02/10/2019

Face value is based on a share price of 507.5p at the close of business on the day prior to the date of grant (3 October 2016). The exercise price of the Options is 25p per share, being the nominal cost of each share.

Board Report on Directors' Remuneration

continued

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 fifth anniversary of the date of grant, following the end of the three year performance period and the two year holding period.

Vesting schedule:

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

Pro-rata in between median and upper quartile.

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

Share Incentive Plan (audited)

The Group currently operates an HM Revenue & Customs tax-advantaged all employee Share Incentive Plan ("SIP"). During the year each executive director received 1,516 partnership, matching and free shares, with a value of £7,201 at a cost to each executive director of £1,800 (excluding tax relief). Non-executive directors are not eligible to participate in the SIP.

Payments to past directors (audited)

There were no payments to past directors in the year ended 30 June 2017 other than detailed below.

Payments for loss of office (audited)

There were no payments for loss of office in the year ended 30 June 2017.

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 movements in any of the directors' shareholdings between 1 July 2017 and 4 September 2017.

None of the directors had any beneficial interest in the Company's preference shares at either 30 June 2017 or 4 September 2017.

Ordinary shares	Shareholding expectation	Shares held outright	Shares held as % of salary	30 June 2017	Total share interests
				Unvested Options with performance conditions	
Rupert Mucklow	–	732,162			732,162
Justin Parker	200% of basic salary	81,630	136%	135,067	216,697
David Wooldridge	200% of basic salary	79,649	170%	92,713	172,362
Stephen Gilmore	–	–			–
Ian Cornock	–	–			–
Peter Hartill	–	–			–
TOTAL		893,441		227,780	1,121,221

The share price at the year-end was 505p.

No options were exercised in the year under review.

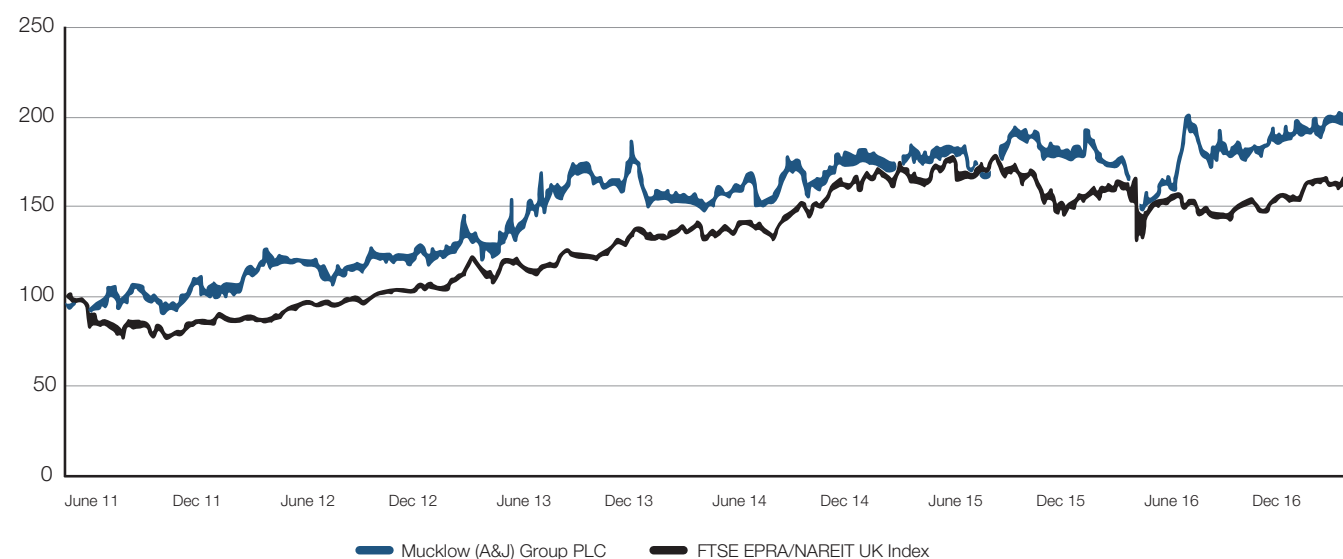
The outstanding unvested Options are made up of the following grants. All options have a 25p exercise price.

Grant Date	Share price at grant	Justin Parker	David Wooldridge
October 2014	425p	49,097	31,528
December 2015	507.5p	42,350	27,195
October 2016	507.5p	43,620	33,990

Movement in executive directors' ordinary shares

Director	Shares held outright 30 June 16	Retained from Option exercise	Acquired under SIP	Sold	Shares held outright 30 June 17
Justin Parker	80,114	–	1,516	–	81,630
David Wooldridge	78,133	–	1,516	–	79,649

Performance graph and table Total shareholder return



Presented above is a graph showing the total return of the Company's shares compared to the FTSE EPRA NAREIT UK price index, considered to be the most relevant index for the Company because it is the comparator group for the 2007 LTIP and the 2015 PSP. Arden Partners plc prepared the graph based on underlying data provided by Bloomberg.

Board Report on Directors' Remuneration

continued

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

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

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

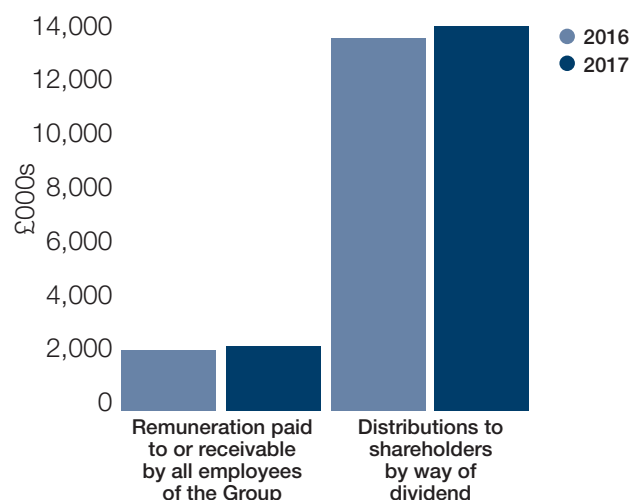
Presented below is a table setting out a comparison of the change in amounts paid to the director undertaking the role of chief executive officer and the change in amounts paid to the wider employee population between 2015/2016 and 2016/2017. For the purpose of this table, the employee group includes all employees of the group, excluding a minority of employees whose remuneration package for 2017/2018 is not representative of the wider workforce.

	Managing Director Percentage change	Employee group Percentage change
Salary	3%	3%
Taxable benefits	5%	4%
Annual bonus	n/a	n/a

No annual bonus was paid out for 2015/2016. Therefore there is no comparative figure against which an increase can be measured.

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 7.2% year on year whilst distributions to shareholders by way of dividend increased by 3.0%.

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

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

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

Deloitte LLP provided a market practice update to the Remuneration Committee during the year on long-term incentive plans. Deloitte LLP's fees for this advice was £1,400 plus VAT, charged on a time and materials basis. Deloitte LLP also provided advice to the Company during the year in relation to corporate and employment tax, cyber risk and accounting of share based payments.

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

Statement of voting at general meeting

Presented below is a table setting out details of the vote on the Remuneration Report as cast at the 2016 AGM. The remuneration policy was voted on at the 2015 AGM.

		For	Against	Abstain
Remuneration	% of votes	99.50%	0.50%	–
Report	Number of votes	44,264,188	222,830	23,006
Remuneration	% of votes	98.40%	1.60%	–
Policy	Number of votes	43,751,765	711,407	33,720

Statement of implementation of Remuneration Policy in the following financial year (2017/18)

The executive Directors' salaries were reviewed by the Committee in June 2017 and they were increased by 3% from 1 July 2017, in line with all other employees in the Group.

LTIP awards to be granted in the 2017/18 financial year will be in accordance with the policy set out on page 39.

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 2017

Executive Director	Base Salary 1 July 2017	Base Salary 1 July 2016	Change
Rupert Mucklow	£226,600	£220,000	+3%
Justin Parker	£304,018	£295,163	+3%
David Wooldridge	£236,900	£230,000	+3%

Fees for non-executive directors with effect from 1 July 2017

Non-Executive Director	Fees 1 July 2017	Fees 1 July 2016	Change
Stephen Gilmore	£38,245	£37,132	+3%
Ian Cornock	£38,245	£37,132	+3%
Peter Hartill	£38,245	£37,132	+3%

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 2017. The Corporate Governance Statement set out on pages 21 to 27 forms part of this report.

Pages 02 to 20 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 2017, 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 2017 the principal activity of the Group is selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

Disclosure of information under Listing Rules 9.8.4

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

Results

The profit for the year and the dividends paid and proposed are set out in detail in the Group statement of comprehensive income and notes. The net profit before taxation for the year was £29.6m and the taxation charge was £nil.

Ordinary dividends

On 18 April 2017, the first quarterly dividend for the year ended 30 June 2017 of 4.94p per share was paid. A second quarterly dividend of 4.94p per share was paid on 17 July 2017.

Dividends totalling 12.24p per share (2016: 11.88p) are being declared in respect of the 30 June 2017 financial year, making the total in respect of the year ended 30 June 2017 22.12p per share (2016: 21.47p), an increase of 3% over the prior year. The dividends consist of a third quarterly dividend of 5.15p and a final dividend of 7.09p. The proposed third quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The third quarterly dividend of 5.15p will be paid on 16 October 2017 to Shareholders on the register at the close of business on 15 September 2017.

The final dividend of 7.09p will, if approved by Shareholders at the AGM, be paid on 15 January 2018 to Shareholders on the register at the close of business on 15 December 2017.

Future prospects

The future prospects are commented on in the Chairman's Statement on page 03.

Directors

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

Rupert Mucklow
Justin Parker
David Wooldridge
Stephen Gilmore
Jock Lennox (to 15 November 2016)
Ian Cornock
Peter Hartill

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

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

Rupert Mucklow and Stephen Gilmore offer themselves for re-election at the AGM.

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

Capital structure

Details of the authorised and issued share capital are shown in note 21. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The preference shares carry 7% interest but do not carry voting rights. The percentage of the issued nominal value of the ordinary shares is 96% (2016: 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 12,204,526 (2016: 12,418,398) ordinary shares, representing 19.28% (2016: 19.62%) of the issued ordinary share capital.

In addition to the shares held by the Mucklow Concert Party, as at 8 August 2017 the Company has been notified of the following voting rights over the issued share capital of the Company.

Substantial shareholdings	Number	%
Tellin (Bermuda) Ltd	3,831,530	6.05
Anadius Investments Limited	3,671,149	5.80
Miton Group plc [†]	3,170,592	5.01
Wesleyan Assurance Society [†]	3,020,000	4.77
NFU Mutual Insurance Society [†]	2,539,953	4.01

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

Going concern

The Group's financing and cash flow position is discussed in the Finance Review on page 12 and in the accounting policies on page 62 of this annual report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Close company provisions

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

Financial instruments

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

Auditor

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

Disclosure of information to the auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's Auditor is unaware;
and
- 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 2017

There are no material events since 30 June 2017 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 14 November 2017 at 11.30 am.

By order of the Board

David Wooldridge Secretary

60 Whitehall Road, Halesowen, West Midlands, B63 3JS
4 September 2017

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

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

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

By the order of the Board

David Wooldridge
Secretary

60 Whitehall Road, Halesowen
West Midlands, B63 3JS
4 September 2017



Independent auditor's report

to the members of A&J Mucklow Group plc

1. Our opinion is unmodified

We have audited the financial statements of A&J Mucklow Group plc ("the Company") for the year ended 30 June 2017 which comprise the Group Statement of Comprehensive Income, Statements of Changes in Equity, Group and Company Balance Sheet, Group and Company Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were appointed as auditor by the directors on 20 September 2015. The period of total uninterrupted engagement is the two years ended 30 June 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £3.0 million (2016:£2.5 million)
group financial statements as a whole 0.8% (2016:0.7%) of total Group assets

Coverage 100% (2016:100%) of total Group assets

Risks of material misstatement vs 2016

Recurring risks	Valuation of Investment and Development property held at fair value	◀▶
	Valuation of Investments in subsidiary undertakings	◀▶

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of Investment and Development Properties held at fair value (£386.8 million; 2016: £363.1 million) <i>Refer to page 30 (Audit Committee Report), page 63 (accounting policy) and page 72 (financial disclosures).</i>	Subjective valuation – Valuation of investment and development property held at fair value is the key area of judgement in the financial statements. It is considered a risk due to its magnitude and the subjective nature of the valuations, particularly the estimates made by the directors in conjunction with the advice from their external valuer in relation to market comparable yield rates and estimated rental value (ERV).	Our procedures, assisted by our own property valuation specialist (for procedures 1, 2, 3 and 4), included: <ol style="list-style-type: none"> Understanding of Valuation Approach: Meeting the Group's external valuer to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the external valuer to support these assumptions. Assessing valuer's credentials: Critically assessed the independence, professional qualifications, competence and experience of the external valuers used by the Group. Methodology Choice: Critically assessed the results of the valuer's report by checking their valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards and that the methodology adopted was appropriate by reference to acceptable valuation practice. Benchmarking Assumptions: Challenged the key assumptions upon which the valuations were based for a sample of properties including those relating to forecast rents and yields by making a comparison to our own assumption ranges derived from market data. Input Assessment: Agreed observable inputs used in the valuations, such as rental income, occupancy rates, lease incentives, break clauses and lease lengths back to source data for a sample of properties. Disclosure Assessment: Critically assessing the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties.
		Our Results We found the valuation for Investment and Development properties to be acceptable.

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

	The risk	Our response
Valuation of Investment in subsidiary undertakings (£186.1 million; 2016: £186.1 million) <i>Refer to page 65 (accounting policy) and page 84 (financial disclosures).</i>	Forecast- based valuation (Parent Company key audit matter) Investment in subsidiary undertakings is significant to the Parent Company's financial statements. It is not considered to be a significant risk but instead an other matter, this is due to its magnitude in the Parent Company's financial statements.	Our procedures included: — Tests of detail: We compared the net asset value of the subsidiaries to the investment in subsidiary undertakings and confirmed that there was sufficient headroom for each of the investments. Our results We found the resulting estimate of the recoverable amount of investment in subsidiaries to be acceptable.

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

The materiality for the group financial statements as a whole was set at £3.0 million (2016: £2.5 million), representing 0.8% of total Group assets of £396.6 million (2016: 0.7% of total Group assets of £374.9 million).

We applied for the first time this year a lower materiality set at £0.75 million to the specific Group income statement items which may be of specific interest to users regarding the Group Income Statement and that could reasonably be expected to influence the Company's members' assessment of the financial performance of the group. These items are gross rental income and gains/(losses) on disposal of investment properties. This was introduced in the year to be in line with other entities in the Company's peer group.

Materiality for the Parent Company financial statements as a whole was set at £1.7 million (2016: £1.6 million), determined with reference to a benchmark of Company total assets of which it represents 0.8% (2016: 0.7%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.15 million (2016: £0.13 million), or exceeding £0.038 million where they relate to specific items listed above, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The Group audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets. The work on all components (2016: all components), including the audit of the Parent Company, was performed by the Group team.

Total Assets of the Group
£396.6 million (2016: £374.9 million)



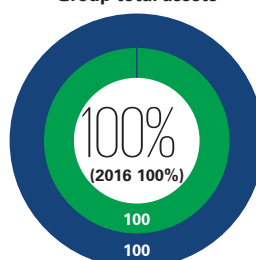
Materiality
£3.0 million (2016: £2.5 million)

£3.0 million
Whole financial statements materiality (2015: £2.5 million)

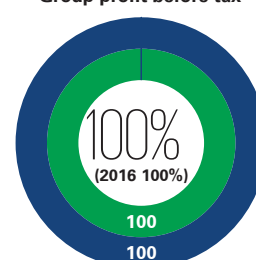
£2.3 million
Range of materiality for components (£1,000 to £2.3 million) (2016: £1,000 to £1.8 million)

£0.15 million
Misstatements reported to the audit committee (2016: £0.13 million)

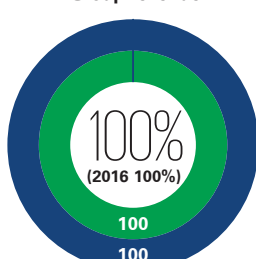
Group total assets



Group profit before tax



Group revenue



■ Full scope for group audit purposes 2017
■ Full scope for group audit purposes 2016

4. We have nothing to report on going concern

We are required to report to you if:

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

We have nothing to report in these respects.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement on page 16 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

We are required to report to you if:

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

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

We have nothing to report in these respects.

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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

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

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

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

Michael Froom (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

4 September 2017



Group Statement of Comprehensive Income

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
Gross rental income	2	23.7	22.9
Service charge income	2	1.0	0.9
Total revenue	2	24.7	23.8
Property costs	3	(2.0)	(1.8)
Net property income		22.7	22.0
Proceeds on sale of trading properties		–	–
Carrying value of trading properties sold		–	–
Property outgoings relating to trading properties		–	–
Net income from trading properties		–	–
Administration expenses		(3.4)	(3.3)
Operating profit before net gains on investment and development properties		19.3	18.7
Profit on disposal of investment and development properties		1.9	–
Revaluation of investment and development properties	11	13.0	10.2
Operating profit		34.2	28.9
Total finance income	7	–	–
Finance costs		(3.4)	(3.7)
Early repayment costs		(1.2)	–
Total finance costs	7	(4.6)	(3.7)
Net finance costs	7	(4.6)	(3.7)
Profit before tax	5	29.6	25.2
Taxation	8	–	–
Profit for the financial year		29.6	25.2
Other comprehensive income:			
Items that will not be reclassified subsequently to profit and loss:			
Revaluation of owner-occupied property		–	–
Total comprehensive income for the year attributable to the owners of the parent		29.6	25.2
All operations are continuing.			
Basic and diluted earnings per share	10	46.63p	39.86p

Statements of Changes in Equity

for the year ended 30 June 2017

Group	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Share- based payments reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2015	15.8	13.0	11.2	0.3	0.3	228.0	268.6
Retained profit	–	–	–	–	–	25.2	25.2
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	25.2	25.2
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.4)	(13.4)
Balance at 30 June 2016	15.8	13.0	11.2	0.3	0.3	240.0	280.6
Retained profit	–	–	–	–	–	29.6	29.6
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	29.6	29.6
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.7)	(13.7)
Balance at 30 June 2017	15.8	13.0	11.2	0.3	0.3	256.1	296.7

Company	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Share- based payments reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2015	15.8	13.0	11.2	–	0.3	143.1	183.4
Retained profit	–	–	–	–	–	13.3	13.3
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.4)	(13.4)
Balance at 30 June 2016	15.8	13.0	11.2	–	0.3	143.2	183.5
Retained profit	–	–	–	–	–	13.0	13.0
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.7)	(13.7)
Balance at 30 June 2017	15.8	13.0	11.2	–	0.3	142.7	183.0

Group and Company Balance Sheet

at 30 June 2017

	Notes	Group 2017 £m	2016 £m	Company 2017 £m	2016 £m
Non-current assets					
Investment and development properties	11	386.8	363.1	–	–
Property, plant and equipment	12	1.3	1.3	–	–
Investments		–	–	186.1	186.1
Derivative financial instruments		–	–	–	–
Trade and other receivables	13	0.6	0.5	0.5	0.2
		388.7	364.9	186.6	186.3
Current assets					
Trading properties	14	0.5	0.5	–	–
Trade and other receivables	15	1.6	2.4	27.1	45.7
Cash and cash equivalents	16	5.8	7.1	–	–
		7.9	10.0	27.1	45.7
Total assets		396.6	374.9	213.7	232.0
Current liabilities					
Trade and other payables	17	(15.2)	(16.0)	(5.3)	(9.9)
Current tax liabilities		(0.4)	–	(0.4)	–
		(15.6)	(16.0)	(5.7)	(9.9)
Non-current liabilities					
Borrowings	19	(84.3)	(78.3)	(25.0)	(38.6)
Total liabilities		(99.9)	(94.3)	(30.7)	(48.5)
Net assets		296.7	280.6	183.0	183.5
Equity					
Called up ordinary share capital	21	15.8	15.8	15.8	15.8
Share premium	22	13.0	13.0	13.0	13.0
Revaluation reserve	22	0.3	0.3	–	–
Share-based payment reserve		0.3	0.3	0.3	0.3
Redemption reserve	22	11.2	11.2	11.2	11.2
Retained earnings		256.1	240.0	142.7	143.2
Total equity		296.7	280.6	183.0	183.5
Net asset value per share					
– Basic and diluted	10	469p	443p		
– EPRA	10	471p	446p		

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 4 September 2017.

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

Group and Company Cash Flow Statement

for the year ended 30 June 2017

	Notes	Group 2017 £m	2016 £m	Company 2017 £m	2016 £m
Cash flows from operating activities					
Operating profit		34.2	28.9	13.3	13.2
Adjustments for non-cash items					
– Unrealised net revaluation gains on investment and development properties		(13.0)	(10.2)	–	–
– Profit on disposal of investment properties		(1.9)	–	–	–
– Depreciation		0.1	0.1	–	–
– Share-based payments		0.2	0.2	0.2	0.2
– Profit on sale of property, plant and equipment		–	–	–	–
– Amortisation of lease incentives		(0.4)	(0.3)	–	–
Other movements arising from operations					
– Increase in trading properties		–	–	–	–
– Decrease/(increase) in receivables		0.3	(1.6)	29.8	13.3
– Increase/(decrease) in payables		1.8	1.5	(12.3)	(14.6)
Net cash generated from operations		21.3	18.6	31.0	12.1
Interest received		–	–	–	–
Interest paid		(4.2)	(3.3)	(0.8)	(1.2)
Preference dividends paid		–	–	–	–
Net cash inflow from operating activities		17.1	15.3	30.2	10.9
Cash flows from investing activities					
Acquisition of and additions to investment and development properties		(11.4)	(4.1)	–	–
Proceeds on disposal of investment and development properties		4.0	–	–	–
Net expenditure on property, plant and equipment		–	(0.1)	–	–
Net cash outflow from investing activities		(7.4)	(4.2)	–	–
Cash flows from financing activities					
Repayment of existing borrowings		(20.0)	–	–	–
New borrowings (net of costs)		39.4	–	–	–
Net (decrease)/increase in borrowings		(13.7)	2.3	(13.5)	2.3
Equity dividends paid		(16.7)	(13.2)	(16.7)	(13.2)
Net cash outflow from financing activities		(11.0)	(10.9)	(30.2)	(10.9)
Net (decrease)/increase in cash and cash equivalents		(1.3)	0.2	–	–
Cash and cash equivalents at beginning of year		7.1	6.9	–	–
Cash and cash equivalents at end of year	16	5.8	7.1	–	–

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 23.

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 2017 the Group had £40.5m of undrawn banking facilities and had drawn down £4.5m from its HSBC £44m 2021 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this document, was undrawn. Given these facilities, the Group's low net debt to equity gearing level of 26% and £101.7m 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.

In making their judgement over the valuation of properties, which has a significant effect on the amounts recognised in the financial statements, management has used the valuation performed by its independent valuers as the fair value of its investment, development, owner-occupied and trading properties. The valuation is based upon assumptions including future rental income and an appropriate yield. The valuers also use market evidence of transaction prices for similar properties.

Standards in issue but not yet effective

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

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date to be confirmed).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

1. Accounting policies continued

Significant accounting policies

Revenue recognition

Rental income

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

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

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

Property operating expenses are expensed as incurred.

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

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

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

Dividends and interest income

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

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

Costs associated with properties

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

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

Valuation of properties

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

Properties under development are valued at fair value until practical completion, when they are transferred to investment properties. Valuation surpluses and deficits attributable to properties under development are recognised in the statement of comprehensive income.

Notes to the Financial Statements

continued

1. Accounting policies continued

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

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

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.

Capital grants

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

Share-based payments

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

Taxation

The Group is a Real Estate Investment Trust (REIT). As a result, the Group does not pay UK corporation tax on its profits and gains from the qualifying rental business. Non-qualifying profits and gains continue to be subject to corporation tax.

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.

1. Accounting policies continued

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.

Pension costs

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

Acquisitions

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

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

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.

Notes to the Financial Statements

continued

1. Accounting policies continued

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.

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

	2017 £m	2016 £m
Gross rental income from investment and development properties	23.7	22.9
Service charge income	1.0	0.9
Income received from trading properties	–	–
Total revenue	24.7	23.8

3. Property costs

	2017 £m	2016 £m
Service charge expenses	1.0	1.0
Other property expenses	1.0	0.8
	2.0	1.8

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.

	2017 £m	2016 £m
Investment and development properties		
– Net property income	22.7	22.0
– Profit on disposal	1.9	–
– Gain on revaluation of investment properties	13.0	8.2
– Gain on revaluation of development properties	–	2.0
	37.6	32.2
Trading properties		
– Income received from trading properties	–	–
– Carrying value on sale	–	–
– Property outgoings	–	–
	–	–
Net income from the property portfolio before administration expenses	37.6	32.2
Administration expenses	(3.4)	(3.3)
Operating profit	34.2	28.9
Net financing costs	(4.6)	(3.7)
Profit before tax	29.6	25.2
The property revaluation gain has been recognised as follows:		
Within operating profit		
– Investment properties	13.0	8.2
– Development properties	–	2.0
	13.0	10.2
Within other comprehensive income		
– Owner-occupied properties	–	–
Total revaluation gain for the period	13.0	10.2

Notes to the Financial Statements

continued

4. Segmental analysis continued

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

	2017 £m	2016 £m
Balance sheet		
Investment and development properties		
– Segment assets	388.3	365.5
– Segment liabilities	(6.9)	(6.8)
– Net borrowings	(78.5)	(71.2)
	302.9	287.5
Trading properties		
– Segment assets	0.5	0.5
– Segment liabilities	–	–
	0.5	0.5
Other activities		
– Unallocated assets	2.0	1.8
– Unallocated liabilities	(8.7)	(9.2)
	(6.7)	(7.4)
Net assets	296.7	280.6
Capital expenditure		
Investment and development properties	12.6	4.0
Other activities	0.1	0.1
	12.7	4.1
Depreciation		
Other activities	0.1	0.1
	0.1	0.1

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

5. Profit for the year

	2017 £m	2016 £m
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	0.1	0.1
Profit on sale of investments property	1.9	–
Net gains on revaluation of investment and development properties	(13.0)	(10.2)
Staff costs (see note 6)	2.0	1.9

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year after taxation amounted to £13.0m (2016: £13.3m).

5. Profit for the year continued

Auditor's remuneration – KPMG LLP

	2017 £000	2016 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	52	50
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	13	19
Total audit fees	65	69
Audit related assurance services	15	13
Taxation compliance services	–	–
Other taxation advisory services	–	–
Total non-audit fees	15	13

The fees paid to KPMG LLP in the current and prior year in respect of other services relate to the half year review. The level of fees paid to KPMG 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.

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:

	2017 Number	2016 Number
Management	6	6
Administration	3	4
Property	5	5
Total employees	14	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:

	2017 £m	2016 £m
Wages and salaries	1.6	1.4
Share-based payment	0.2	0.2
Social security costs	0.2	0.2
Pension costs	–	0.1
	2.0	1.9

Pension arrangements

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

Pension contributions (including for directors) paid in the year ended 30 June 2017 amounted to £44,536 (2016: £90,676).

Notes to the Financial Statements

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7. Net finance costs

	2017 £m	2016 £m
Finance costs on:		
Preference share dividend	–	–
Early repayment costs	1.2	–
Bank overdraft and loan interest payable	3.4	3.7
Total finance costs	4.6	3.7
Finance income on:		
Short-term deposits	–	–
Fair value movement of derivative financial instruments	–	–
Bank and other interest receivable	–	–
Total finance income	–	–
Net finance costs	4.6	3.7

8. Taxation

	2017 £m	2016 £m
Current tax		
– Corporation tax	–	–
Deferred tax	–	–
Total tax in the statement of comprehensive income	–	–

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

	2017 £m	2016 £m
Profit before tax	29.6	25.2
Profit before tax multiplied by the standard rate of UK corporation tax of 19.75% (2016: 20.0%)	5.9	5.0
Effect of:		
REIT exempt income and gains	(6.1)	(5.2)
Losses not recognised	0.1	0.1
Share-based payments	0.1	0.1
	–	–

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

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 £13.5m (2016: £14.1m) of properties which have completed development during the previous three years. If these properties had been disposed of at their 30 June 2017 valuation, then tax of £nil (2016: £0.5m) 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.

9. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Quarterly dividend for the year ended 30 June 2016 of 5.00p (2015: nil) per share	3.1	–
Final dividend for the year ended 30 June 2016 of 6.88p (2015: 11.53p) per share	4.4	7.3
Interim dividend for the year ended 30 June 2016 of 9.59p per share	–	6.1
First quarterly dividend for the year ended 30 June 2017 of 4.94p (2016: nil) per share	3.1	–
Second quarterly dividend for the year ended 30 June 2017 of 4.94p (2016: nil) per share	3.1	–
	13.7	13.4

The third quarterly dividend payment of 5.15p (2016: 5.00p) will be paid on 16 October 2017 to shareholders on the register at the close of business on 15 September 2017, totalling £3.3m. As this dividend was not declared at 30 June 2017, it has not been included as a liability in these financial statements.

The directors propose a final dividend for the year ended 30 June 2017 of 7.09p (2016: 6.88p) per ordinary share, totalling £4.5m. Both dividends will be paid as PIDs.

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

The final dividend, if approved, will be paid on 15 January 2018 to shareholders on the register at the close of business on 15 December 2017.

10. Earnings per share and net asset value per share

Earnings per share

The basic and diluted earnings per share of 46.63p (2016: 39.86p) has been calculated on the basis of the weighted average of 63,294,833 ordinary shares (2016: 63,294,833 ordinary shares) and profit of £29.6m (2016: £25.2m).

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:

	2017 £m	2016 £m
Earnings	29.6	25.2
Profit on disposal of investment and development properties	(1.9)	–
Net gains on revaluation of investment and development properties	(13.0)	(10.2)
Early repayment costs	1.2	–
EPRA earnings	15.9	15.0
EPRA earnings per share	25.05p	23.88p

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 103,257 ordinary shares were granted in the year (2016: 94,445 ordinary shares) under the 2015 Performance Share Plan. The vesting conditions for these shares have not been met, so they have not been treated as dilutive in these calculations. The sixth three year award under the 2007 Performance Share Plan vested in the period, with no ordinary shares being issued and with 87,606 shares lapsed.

Notes to the Financial Statements

continued

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

Net asset value per share

The net asset value per share of 469p (2016: 443p) has been calculated on the basis of the number of equity shares in issue of 63,294,833 (2016: 63,294,833) and net assets of £296.7m (2016: £280.6m). The EPRA net asset value per share has been calculated as follows:

	2017 £m	2016 £m
Equity shareholders' funds	296.7	280.6
Valuation of land held as trading properties	1.9	1.9
Book value of land held as trading properties	(0.5)	(0.5)
EPRA net asset value	298.1	282.0
EPRA net asset value per share	471p	446p

11. Investment and development properties

Group	Investment £m	Development £m	Total £m
At 30 June 2015	342.5	6.1	348.6
Additions	4.0	–	4.0
Lease incentives	0.3	–	0.3
Revaluation gain	8.2	2.0	10.2
At 1 July 2016	355.0	8.1	363.1
Additions	11.6	1.0	12.6
Lease incentives	0.4	–	0.4
Impairment	–	(0.1)	(0.1)
Disposals	(2.2)	–	(2.2)
Revaluation gain	13.0	–	13.0
At 30 June 2017	377.8	9.0	386.8

The closing book value shown above comprises £364.1m (2016: £340.7m) of freehold and £22.7m (2016: £22.4m) of leasehold properties.

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

11. Investment and development properties continued

	Freehold £m	Leasehold £m	Total £m
Properties held at valuation on 30 June 2016:			
Cost	208.6	22.9	231.5
Valuation surplus/(deficit)	132.1	(0.5)	131.6
Valuation	340.7	22.4	363.1

The properties are stated at their 30 June 2017 fair value and are valued by Cushman & Wakefield, professionally qualified external valuers, in accordance with the RICS Valuation Professional Standards published by the Royal Institution of Chartered Surveyors. Cushman & Wakefield have recent experience in the relevant location and category of the properties being valued. Cushman & Wakefield is the trading name of Cushman & Wakefield Debenham Tie Leung Limited.

	2017 £m	2016 £m
Cushman & Wakefield valuation	386.9	364.2
Owner-occupied property included in property, plant and equipment	(1.1)	(1.1)
Other adjustments	1.0	–
Investment and development properties as at 30 June	386.8	363.1

Additions to freehold and leasehold properties include capitalised interest of £nil (2016: £nil). The total amount of interest capitalised included in freehold and leasehold properties is £5.4m (2016: £5.4m). Properties valued at £285.2m (2016: £225.8m) were subject to a security interest.

During the year, the Group has commenced construction at i54. The land option held in other debtors has therefore been transferred to Development Properties.

Notes to the Financial Statements

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12. Property, plant and equipment

Group	Owner-occupied property £m	Plant and vehicles £m	Total £m
Cost			
At 1 July 2015	1.1	0.5	1.6
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Revaluation	–	–	–
At 30 June 2016	1.1	0.5	1.6
Depreciation			
At 1 July 2015	–	0.3	0.3
Charged in year	–	0.1	0.1
On disposal	–	(0.1)	(0.1)
At 30 June 2016	–	0.3	0.3
Net book value			
At 30 June 2016	1.1	0.2	1.3
At 30 June 2015	1.1	0.2	1.3
Properties held at valuation:			
Cost	0.9	–	0.9
Valuation surplus	0.2	–	0.2
Valuation	1.1	–	1.1

Cost			
At 1 July 2016	1.1	0.5	1.6
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Revaluation	–	–	–
At 30 June 2017	1.1	0.5	1.6
Depreciation			
At 1 July 2016	–	0.3	0.3
Charged in year	–	0.1	0.1
On disposal	–	(0.1)	(0.1)
At 30 June 2017	–	0.3	0.3
Net book value			
At 30 June 2017	1.1	0.2	1.3
At 30 June 2016	1.1	0.2	1.3
Properties held at valuation:			
Cost	0.9	–	0.9
Valuation surplus	0.2	–	0.2
Valuation	1.1	–	1.1

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

13. Non-current trade and other receivables

	Company		Group	
	2017 £m	2016 £m	2017 £m	2016 £m
Mortgage receivables	0.1	0.1	–	–
i54	–	0.1	–	–
Other debtors	0.5	0.3	0.5	0.2
	0.6	0.5	0.5	0.2

The figures shown above are after deducting a provision for bad and doubtful debts of £nil (2016: £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.

During the year, the Group has commenced construction at i54. The land option held in other debtors has therefore been transferred to Development Properties.

14. Trading properties

Group	2017 £m	2016 £m
Land stock	0.5	0.5

15. Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Falling due in less than one year				
Trade receivables	1.2	1.9	–	–
New site deposit	–	0.3	–	–
Amounts due from Group undertakings	–	–	27.1	45.7
Prepayments and accrued income	0.4	0.2	–	–
	1.6	2.4	27.1	45.7

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

Trade Receivables

No interest is charged on the receivables. No allowance has been needed against amounts from rental income receivables (2016: £nil). This allowance has been determined by reference to past default experience.

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £0.1m (2016: £nil) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 0 days (2016: 0 days).

Notes to the Financial Statements

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15. Trade and other receivables continued

Ageing of past due but not impaired receivables:

Number of days past due	2017 £m	2016 £m
1-30 days	–	–
30-60 days	–	–
60-90 days	0.1	–
90 days +	–	–
Balance at 30 June past due but not impaired	0.1	–
Current	1.1	1.9
Balance at 30 June	1.2	1.9

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.

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

16. Cash and cash equivalents

Group	2017 £m	2016 £m
Cash at bank and in hand	5.8	7.1

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Deferred income in respect of rents and insurances	6.9	6.8	–	–
Amounts due to Group undertakings	–	–	2.0	3.5
Trade and other payables	5.6	8.1	3.1	6.2
Accruals	2.7	1.1	0.2	0.2
	15.2	16.0	5.3	9.9

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

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

18. Borrowings — bank overdraft

The Group's overdraft facility is reviewed annually.

19. Borrowings

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Borrowings from revolving credit facility 2021	4.5	18.0	4.5	18.0
HSBC term loan 2021	19.8	19.9	19.8	19.9
Lloyds term loan 2022	—	19.7	—	—
Lloyds term loan 2023	20.0	20.0	—	—
Scottish Widows term loan 2031	39.3	—	—	—
675,000 (2016: 675,000) Preference shares of £1 each	0.7	0.7	0.7	0.7
	84.3	78.3	25.0	38.6

The HSBC facilities were renewed during the current 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 (2016: £44.0m) revolving credit facilities, £4.5m (2016: £18.0m) was utilised at 30 June 2017. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

On 20 May 2008, a loan of £20.0m was agreed with Lloyds Bank with expiry on 22 May 2023. Interest at 5.59% 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 20 December 2016, a loan of £40.0m was agreed with Scottish Widows with expiry on 22 December 2031. Interest at 3.51% is payable quarterly, with repayment of capital due at the end of the term. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

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

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 £nil (2016: £nil) 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.

Notes to the Financial Statements

continued

21. Share capital

	2017 £m	2016 £m
Authorised		
Equity		
117,300,000 (2016: 117,300,000) Ordinary shares of 25p each	29.3	29.3
Allotted, Called Up and Fully Paid		
Equity		
63,294,833 (2016: 63,294,833) Ordinary shares of 25p each	15.8	15.8

Options over 103,257 ordinary shares were granted in the year. The conditions for vesting are disclosed in the Board Report on Directors' Remuneration on pages 35 to 52. 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 (2016: £675,000) at nominal value of £1 Preference shares authorised and in issue, representing 4% (2016: 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.

Net debt to equity gearing ratio

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

	2017 %	2016 %
Net debt to equity gearing	26	25

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.

23. Financial instruments continued

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 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 net debt to equity gearing has reduced the risk to changes in interest rates. The Board reviewed the increase in borrowing requirements and forecast cash flows and decided to enter into long-term fixed rate loans to reduce the exposure to variable interest rates.

Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 0.5% higher and all other variables were constant, the Group's profit for the year would decrease by £0.1m (2016: 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 (2016: £0.2m).

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

Credit risk management

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

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

The maximum credit risk on financial assets at 30 June 2017 is £7.1m (2016: £9.2m).

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.

Notes to the Financial Statements

continued

23. Financial instruments continued

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

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

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

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities as at 30 June 2017. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted Average effective interest rate %	Less than 1 month £m	1-3 months £m	3 months -1 year £m	1-5 Years £m	5+ Years £m	Total £m
2017							
Variable interest rate instruments	2.11	0.2	–	0.3	25.9	–	26.4
Fixed interest rate instruments	4.23	0.3	0.3	1.9	10.3	74.9	87.7
		0.5	0.3	2.2	36.2	74.9	114.1
2016							
Variable interest rate instruments	3.20	0.2	–	0.5	38.6	–	39.3
Fixed interest rate instruments	5.42	–	0.5	1.6	9.2	43.9	55.2
		0.2	0.5	2.1	47.8	43.9	94.5

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.

23. Financial instruments continued

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. This loan was repaid on 20 December 2016 and the Group borrowed a further £40.0m from Scottish Widows for 15 years at a fixed rate of interest.

The Group has entered into interest rate caps in respect of £35.0m of the HSBC facilities (2016: £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 £39.5m at 30 June 2017 (2016: £26.0m), which are due to expire in 2021. The Group has a £1.0m overdraft facility which expires in less than one year. £1.0m of this facility was undrawn as at 30 June 2017 (2016: £1.0m was undrawn). The Group has a fully drawn £20.0m fixed rate loan facility which expires in 2023 (2016: £20.0m), a fully drawn £40.0m fixed rate loan facility which expires in 2031 (2016: £20.0m) and a fully drawn £20.0m variable rate loan facility which is due to expire in 2021 (2016: £20.0m).

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

Fair values As at 30 June 2017	Book value £m	Fair value £m	Fair value adjustment £m	% of book value
Financial assets				
Interest rate caps	–	–	–	–
Financial liabilities				
Lloyds Bank loan 2023	20.0	24.6	4.6	23
Scottish Widows loan 2031	39.3	40.2	0.9	2
HSBC term loan	19.8	20.0	0.2	1
Revolving credit facility	4.5	4.5	–	–
Preference shares	0.7	0.7	–	5
	84.3	90.0	5.7	7
Fair values As at 30 June 2016	Book Value £m	Fair Value £m	Fair value Adjustment £m	% of Book value
Financial assets				
Interest rate caps	–	–	–	–
Financial liabilities				
Lloyds Bank loan 2023	20.0	26.0	6.0	30
Lloyds Bank loan 2022	19.7	21.9	2.2	11
HSBC term loan	19.9	20.0	0.1	1
Revolving credit facility	18.0	18.0	–	–
Preference shares	0.7	0.7	–	5
	78.3	86.6	8.3	11

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

Notes to the Financial Statements

continued

23. Financial instruments continued

Fair value measurements recognised in the statement of financial position

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

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

	30 June 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment and development properties	–	–	386.8	386.8
Financial assets at FVTPL – interest rate caps	–	–	–	–
Available-for-sale assets – mortgage receivables	–	0.1	–	0.1

	30 June 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment and development properties	–	–	363.1	363.1
Financial assets at FVTPL – interest rate caps	–	–	–	–
Available-for-sale assets – mortgage receivables	–	0.1	–	0.1

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the June 2017 valuation, the yields used ranged from 5.0% to 8.7% (June 2016: 5.0% to 8.8%). 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 valuers 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.

23. Financial instruments continued

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

Group	2017 £m	2016 £m
Sterling financial assets:		
Fixed rate	–	–
Non-interest bearing	0.1	0.1
	0.1	0.1

The Company has no non-sterling financial assets.

Financial assets are cash at bank and in hand, short-term deposits, derivative financial instruments and mortgage receivables. There were no money market deposits at either 30 June 2017 or 30 June 2016. 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 loan and bank facilities of the Group are secured by interlocking cross guarantees given by the Company and subsidiary undertakings. All of the loans and bank facilities are included in the Group balance sheet.

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

25. Operating leases

The Group as lessor

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

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

Group	2017 £m	2016 £m
Not later than one year	22.3	21.8
Later than one year but not later than five years	61.9	56.4
Later than five years	58.4	59.0
	142.6	137.2

Property rental income earned during the year was £23.7m (2016: £22.9m). Direct operating expenses arising on the investment property in the period amounted to £1.0m (2016: £0.9m). 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.

Notes to the Financial Statements

continued

26. Commitments

Group	2017 £m	2016 £m
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	5.1	4.5

27. Related party transactions

Investments in subsidiaries

Company	£m
As at 1 July 2016	186.1
Impairment	–
As at 30 June 2017	186.1

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

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

The Company undertakes the following transactions with its active subsidiaries:

- Providing day-to-day funding; and
- Receiving dividends of £14.0m (2016: £14.0m).

Remuneration and key management personnel

The remuneration of the key management personnel (including directors) of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Board Report on Directors' Remuneration on pages 35 to 52.

Group	2017 £m	2016 £m
Short-term employee benefit	1.6	1.4
Post-employment benefits	0.1	0.1
Share-based payment	0.2	0.2
	1.9	1.7

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

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

	2017		2016	
	Number of share options	Exercise price in p	Number of share options	Exercise price in p
Outstanding at 1 July	287,469	25	305,607	25
Granted during the year	103,257	25	94,445	25
Exercised during the year	–	–	–	–
Lapsed during the year	(87,606)	25	(112,583)	25
Outstanding at 30 June	303,120	25	287,469	25
Exercisable at 30 June	–	–	–	–

No options over ordinary shares were exercised during the year.

The aggregate of the estimated fair values of the options granted during the year is £0.3m (2016: £0.2m).

The weighted average remaining contracted life of the options outstanding at 30 June 2017 was 1.3 years. The exercise price for all options is 25p per share.

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

	Executive 2017	Senior Management 2017	Executive 2016	Senior Management 2016
Share price at valuation date	495.25p	495.25p	510.0p	510.0p
Exercise price	25p	25p	25p	25p
Expected volatility	22%	22%	24%	23%
Risk-free rate	0.23%	0.09%	1.21%	0.82%
Expected dividend yield	4.5%	4.5%	4.09%	4.09%

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 2017 (2016: £0.2m).

Notes to the Financial Statements

continued

29. Post balance sheet events

There are no material events to report since 30 June 2017.

30. Subsidiary undertakings

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

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

Property investment and development

A & J Mucklow (Halesowen) Limited
A & J Mucklow (Investments) Limited
A & J Mucklow (Properties) Limited
Penbrick Limited

Trading

A & J Mucklow & Co Limited

Administrative

A & J Mucklow (Nominees) Limited

Dormant

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

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

Shareholder Information

for the year ended 30 June 2017

Five year record

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue					
Gross rental income	23.7	22.9	21.6	21.1	20.4
Net property income	22.7	22.0	20.6	20.1	19.8
Profit on disposal of investment properties	1.9	–	0.1	0.3	0.1
Operating profit	34.2	28.9	59.8	44.8	19.7
Underlying pre-tax profit	15.9	15.0	13.9	12.9	13.5
Statutory pre-tax profit	29.6	25.2	56.2	40.7	16.3
Capital					
Net assets	296.7	280.6	268.6	225.0	182.5
Property portfolio	386.9	364.2	349.7	298.9	262.7
Per ordinary share					
Basic earnings	46.63p	39.86p	89.02p	66.45p	27.21p
EPRA earnings	25.05p	23.88p	22.21p	21.09p	22.43p
Ordinary dividend*	22.12p	21.47p	20.84p	20.23p	19.64p
Basic net asset value per share†	469p	443p	424p	356p	303p
EPRA net asset value per share	471p	446p	427p	358p	305p

* Representing interim paid, quarterly and final proposed dividend for the year.

† Excludes surplus on land held as trading properties.

Investor Relations

Annual General Meeting

The Group's Annual General Meeting will be held on Tuesday 14 November 2017 at 11.30 a.m. at the Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham B15 3TR.

Share Price Information

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

Legal Entity Identifier (LEI): 21300M1Q89HWSY7ES84

Website

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

Environmental matters

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

Shareholder Information

continued

Financial Calendar

Annual General Meeting

14 November 2017

Results announced

For the half year to 31 December 2017	February 2018
For the year to 30 June 2018	September 2018

Ordinary dividends

Third quarterly for 2017	- announce	5 September 2017
	- pay	16 October 2017
Final for 2017	- announce	5 September 2017
	- pay	15 January 2018
First quarterly for 2018	- announce	February 2018
	- pay	April 2018
Second quarterly for 2018	- announce	February 2018
	- pay	July 2018

Glossary

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

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

BREEAM is the European Building Research Establishment Environmental Assessment Method.

Company is A & J Mucklow Group plc.

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

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

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

EPRA is the European Public Real Estate Association.

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

EPRA net asset value is the net asset value, excluding deferred tax on property revaluation 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 excluding prospective purchasers' costs.

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

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

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

IFRS is International Financial Reporting Standards.

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

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

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

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

Glossary

continued

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

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

Property Income Distribution (PID). As a REIT the Group is obliged to distribute 90% of the tax-exempt profits.

These dividends, which are referred to as PIDs, are subject to withholding tax at the basic rate of income tax. Certain classes of shareholders may qualify to receive the dividend gross. See our website (www.mucklow.com) for details. The Group can also make other (normal) dividend payments which are taxed in the usual way.

PSF is per square foot.

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

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

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

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

Underlying pre-tax profit is defined as the investment/development operations of the Group. See the investment/development column in the tables on page 11 of the finance review for the calculations. It excludes revaluation movements, profit on the sale of investment and trading properties and early repayment costs.

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

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

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

10 Years as a REIT

	Vacancy rate %	LTV %	EPRA NAV per share	Shareholders' funds £m	Ordinary dividend paid £m
2008	7.0	11	379	222.7	10.6
2009	9.5	19	267	159.7	10.6
2010	8.5	21	314	185.9	10.8
2011	7.3	26	318	188.6	11.1
2012	6.5	27	297	177.6	11.5
2013	6.7	28	305	182.5	11.8
2014	6.7	22	358	225.0	12.8
2015	5.4	20	427	268.6	13.2
2016	3.2	20	446	280.6	13.6
2017	4.2	20	471	296.7	14.0
Average	6.5	21	358	218.8	12.0
Total					120.0



Consultation, design and production by:
jonesandpalmer.co.uk



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