MUCKLOW

A&J Mucklow Group plc

Annual Report and Financial Statements
for the year ended 30 June 2016

Stock Code: MKLW

MUCKLOW

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

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

Financial Summary

for the year ended 30 June 2016

Statement of comprehensive income

	Year ended 30 June 2016	Year ended 30 June 2015
Underlying pre-tax profit[1]	**£15.0m**	£13.9m
Statutory pre-tax profit	**£25.2m**	£56.2m
EPRA EPS[2]	**23.88p**	22.21p
Basic EPS	**39.86p**	89.02p
Ordinary dividend per share	**21.47p**	20.84p

Balance sheet

	30 June 2016	30 June 2015
Net asset value	**£280.6m**	£268.6m
EPRA NAV per share[3]	**446p**	427p
Basic NAV per share	**443p**	424p
Net debt	**£71.2m**	£69.0m
Gearing	**25%**	26%

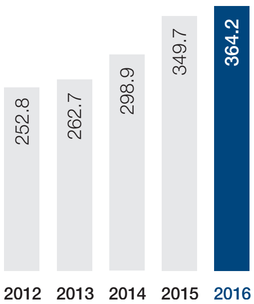
Property portfolio

	30 June 2016	30 June 2015
Vacancy rate	**3.2%**	5.4%
Portfolio value[4]	**£364.2m**	£349.7m
Valuation gain	**£10.2m**	£42.4m
Initial yield on investment properties	**6.4%**	6.3%
Equivalent yield	**7.2%**	7.2%

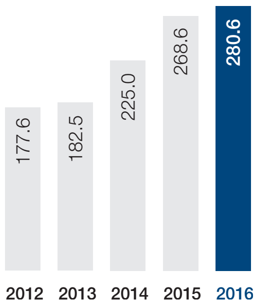
The Ordinary dividend of 21.47p per share (2015: 20.84p) consists of the interim dividend of 9.59p, a quarterly dividend of 5.00p and a final dividend of 6.88p.

1. Underlying profit is defined as investment/development operations of the Group. See the investment/development column in the tables on page 12 of the property and finance review for the calculations.
2. Excludes the profit on disposal of investment, development and trading properties and the revaluation of investment and development properties and derivative financial instruments and tax adjustments. See note 10.
3. Excludes the fair value of derivative financial instruments and includes the fair value surplus on trading properties. See note 10.
4. See note 11.

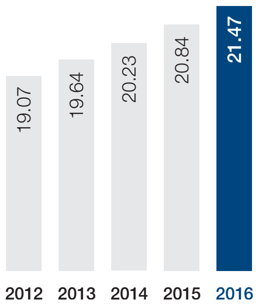
Portfolio Value
£m



Net Asset Value
£m



Ordinary Dividend
pence



Strategic Report

Governance Report

Financial Statements

Shareholder Information

See more information online
www.mucklow.com

Chairman's Statement

Rupert Mucklow, Chairman

I am pleased to report another solid performance by the Group for the year ended 30 June 2016, which has resulted in further increases in underlying profit, net asset value and Ordinary dividend per share.

Our vacancy rate at 30 June 2016 had reduced to an historic low of 3.2%. Midlands industrial property continued to benefit from strong rental growth, as a consequence of steady occupational demand throughout the year and a diminishing supply of modern space.

Since our year end and post the EU referendum, the regional property market has remained buoyant and, so far, does not appear to have been affected by the decision. Our vacancy rate has subsequently fallen to below 3.0%.

Results

The underlying pre-tax profit, which excludes revaluation movements and profit on the sale of investment and trading properties, increased by 7.9% during the year to £15.0m (2015: £13.9m). EPRA adjusted earnings per Ordinary share was 23.88p (2015: 22.21p).

Statutory pre-tax profit was £25.2m, which included a revaluation surplus of £10.2m (2015: £56.2m, including a revaluation surplus of £42.3m).

EPRA net asset value per Ordinary share increased by 4.4% during the year from 427p to 446p.

Shareholders' funds rose to £280.6m (2015: £268.6m), while borrowings, net of cash, amounted to £71.2m (2015: £69.0m). Debt to equity gearing reduced to 25% (2015: 26%) and LTV remained at 20%.

Dividend

The Board has decided to increase the frequency of dividend payments and move to quarterly dividends with effect from October 2016. Part of the final dividend that would have been paid in January 2017 is being brought forward to October 2016.

Dividends of 11.88p per Ordinary share (2015: 11.53p) are being declared in respect of the 30 June 2016 financial year, making a total for the year of 21.47p (2015: 20.84p), an increase of 3% over the prior year.

The dividends consist of a quarterly dividend of 5.00p per Ordinary share to be paid on 17 October 2016 to Shareholders on the register at the close of business on 16 September 2016 and a final dividend of 6.88p per Ordinary share, if approved by shareholders at the AGM, to be paid on 16 January 2017 to Shareholders on the register at the close of business on 16 December 2016.

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

The interim dividend will also be split and paid quarterly in the middle of April and July 2017.

Property Review

The number of active requirements for Midlands industrial property has been maintained at a similar level to the previous 12 months and has continued post the EU referendum result. A declining supply of quality industrial space has enabled us to continue to grow rental levels on new lettings and lease renewals, which in turn has also provided higher reversionary rental evidence for future lease events and property valuations.

Our vacancy rate at 30 June 2016 fell to 3.2% (30 June 2015: 5.4%). We completed 32 new lettings and 26 lease renewals during the year, representing 8.9% of our property portfolio by area. Rental growth from new lettings and lease renewals averaged around 10.0%, approximately 5.0% higher than our estimated rental values set in the previous year.

Two investment properties were bought during the financial year at a total cost of £4.0m.

We acquired a 19,200 sq ft retail warehouse in Leicester City centre and a 17,000 sq ft industrial unit in Halesowen, West Midlands. The combined rental income for the two properties was £0.27m.

We also agreed terms to acquire a pre-let development at Grove Park, Leicester for £4.7m, on a forward commitment basis. The property will comprise 20,620 sq ft of high quality offices with 112 car parking spaces. The development is progressing well and is due to be completed in December 2016. The initial rent will be £0.35m pa.

The regional investment market remained stable throughout the year, with only a limited number of suitable buying opportunities available and very little change in property yields. Uncertainty caused by the EU referendum result may provide us with some additional Institutional stock, but early signs are that quality investment properties are still in high demand and will continue to be well supported by investors.

A shortage of vacant industrial property in the Midlands is creating some opportunities for pre-let development. We entered into an option agreement during the year with Wolverhampton City Council and Staffordshire County Council to promote and develop a prime 15 acre industrial site 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. We are currently in detailed discussions on the first proposed pre-let building of 43,000 sq ft.

Marketing of our 20 acre industrial site at Tyseley, Birmingham is still on hold, while we wait for Birmingham City Council to resolve a few technical issues on the procurement of a new link road. There remains a real shortage of land around Birmingham which can accommodate buildings over 50,000 sq ft.

Property Valuation

Cushman & Wakefield revalued our property portfolio at 30 June 2016. The investment properties and development land were valued at £364.2m, which showed a revaluation surplus of £10.2m (2.9%).

The initial yield on the investment properties was 6.4% (30 June 2015: 6.3%), rising to 6.7% on the expiry of rent free periods. The equivalent yield was unchanged at 7.2% (30 June 2015: 7.2%).

Cushman & Wakefield also revalued our trading properties at 30 June 2016. The total value was £1.9m (2015: £1.9m), which showed an unrecognised surplus of £1.4m against book value (2015: £1.4m).

Finance

Total net borrowings at 30 June 2016 were £71.2m (2015: £69.0m). Undrawn banking facilities totalled £27.0m, while net debt to equity gearing had reduced to 25% (2015: 26%) and loan to value remained unchanged at 20% (2015: 20%).

Since our year end, we have renewed our £64m banking facilities with HSBC for a further 5 years through to 2021 at a reduced margin.

Board Changes

The following planned changes to Non-Executive Directorships have been made over the last 6 months, with a view to providing succession and continuity in the composition of our Board.

Paul Ludlow retired as Senior Independent Non-Executive Director on 30 June 2016, having completed 9 years' dedicated service to the Company. Paul has been replaced by Ian Cornock, a Chartered Surveyor, who is currently Lead Director for the Midlands Region of Jones Lang LaSalle, with over 30 years' experience in commercial property.

Jock Lennox has advised us that he will be stepping down from the Board at our Annual General Meeting on 15 November 2016 after 6 productive years as Chairman of our Audit Committee.

Since the year end Peter Hartill has been appointed to the Board as an Independent Non-Executive Director and will take over the role of Chairman of the Audit Committee on Jock's retirement. Peter is a retired chartered accountant and is currently Chairman of the Audit Committee at Midlands based The Paragon Group of Companies Plc.

Paul and Jock have made extensive contributions to our Board meetings over the years and I would like to thank them for their commitment. Ian and Peter have settled in well and I am confident that our business will continue to benefit from the wealth of experience and specialist knowledge that all of our Independent Non-Executive Directors offer.

Outlook

High occupancy levels and steady letting enquires for quality industrial property are expected to continue for some time, given the lack of supply in the local Midlands market, despite the anticipated uncertainty caused by the referendum decision.

Over the next 12 months, we intend to continue our strategy of actively managing our investment portfolio to realise the excellent reversionary potential it offers and when opportunities arise, selectively to acquire and develop low risk, income producing properties, in order to grow rental income and expand our property portfolio.

It is too early for us to understand what longer term impact leaving the EU will have on the UK economy and our business, however, we are extremely well placed to respond to any market changes.

Rupert Mucklow
Chairman

5 September 2016

Strategy and Business Model

The Group's main objective is the long-term enhancement of shareholder value through dividend and capital appreciation, whilst adopting a conservative financial structure.

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

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

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

We continue to primarily invest and develop in the Midlands region, an area we consider to offer attractive long-term rental and capital growth potential, and where we have over 75 years' experience.

The geographic concentration of our portfolio, and range of unit sizes and lease expiries, means that we can work closely with our existing customers to satisfy their space requirements as their businesses expand, or their requirements contract, within our existing portfolio.

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.

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

The core of our business is the investment property portfolio, which represents 98% of the value of the investment and development properties held. The investment portfolio consists of 60 properties/estates, with 345 units, totalling 3.9m sq ft.

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

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

Our low cost base, comprising only eleven employees, as well as four 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.

Grove Park, Leicester

Plot 4c, Grove Park, Leicester

Forward funded pre-let office building of

20,620 sq ft

Cost

£4.7m

Size

1.42 acres

Completion

December 2016

i54 Wolverhampton

As one of the UK's leading supply chain centres, the central location of the Black Country, alongside unbeatable connectivity and an established infrastructure, makes it a perfect location for business to thrive. As well as fast-track planning, Mucklow Park i54 benefits from business rates discounts worth up to £275,000 over 5 years.

Business case

i54 South Staffordshire is a 239 acre (97 hectare) business park occupying a prime location in the centre of the UK, within the Black Country Enterprise Zone. Its position adjacent to the M54 motorway, and its own dedicated access to Junction 2, make it one of the best-connected and most central hubs for advanced manufacturing in the UK.

It is already home to a number of leading manufacturers and has been the focus of huge investment from Jaguar Land Rover as it consolidates its plans for growth in the West Midlands, building on the existing expertise in the UK's traditional manufacturing heartland.

The gateway plot to this scheme of national importance is occupied by Mucklow Park i54, providing occupiers with all the advantages of an enterprise zone along with unrivalled connectivity.

Size

15 acres

up to

275,000 sq ft

of advance manufacturing space

Property and Finance Review

Justin Parker, Managing Director
David Wooldridge, Finance Director

Increase in Property Value

£10.2m

Increase in Underlying profit

7.9%

Overview

The Group has continued to perform positively during the year ended 30 June 2016. Gross rental income increased by 6.0% to £22.9m, underlying profit increased by 7.9% to £15.0m, ordinary dividends have been increased by 3.0%, net assets have increased to over £280m and gearing has reduced to 25% (2015: 26%).

Investor demand for commercial property remained relatively strong, albeit with lower transaction volumes in the second half of the financial year. Investment and development properties increased in value by £10.2m (2.9%) over the 12 month period. The EU referendum result was announced a week before our year-end, so there was no transactional evidence between the referendum result and our valuation date for our valuers to reflect in the 30 June 2016 investment and development property valuation.

It is too early to assess any potential impact of the referendum result on our property values and occupational demand, although we have not yet experienced any material change in occupational interest.

Industrial property, our sector focus, is well placed to deal with current market conditions, given continuing robust occupational interest, particularly from e-commerce and retailers. We will continue to closely monitor economic and political developments and react accordingly to any changes in market conditions.

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 gearing.

Key performance indicators

	2016	2015
Underlying pre-tax profit* (£m)	**15.0**	13.9
Vacant space (%)	**3.2**	5.4
Dividend growth (%)	**3.0**	3.0
Gearing (net of cash) (%)	**25**	26

* See the table on page 12 for the calculations.

Group structure

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

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

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

Acquisition and disposal of investment properties

The industrial investment market remained competitive during our financial year, with a slowing down in the number of suitable properties in the second half. We have entered into three off-market transactions in the year, acquiring two investment properties and agreeing to buy one property on a forward commitment basis.

In August 2015 we completed the purchase of a 19,203 sq ft retail warehouse with 80 car parking spaces at a cost of £2.8m (net initial yield: 6.45%). The building is located in Leicester City Centre, close to Highcross shopping centre. The property is let on a 25 year lease, expiring in 2023, at a current rent of £0.18m.

Just before our financial year-end we acquired an industrial/warehouse unit close to our offices in Halesowen. Unit D5 at Coombswood Business Park is a 16,974 sq ft building constructed in 2003, let until 2023 at a rent of £4.99 psf, offering reversionary potential. The purchase price of £1.2m reflects an initial yield of 7.0%.

In January 2016 terms were agreed to forward fund a 20,620 sq ft pre-let office building at Grove Park, Leicester, for £4.7m (net initial yield: 7.0%). Completion of the high quality office scheme with 112 car parking spaces is due in December 2016. Letting terms have been agreed at an initial rent of £0.35m (£16.95 psf).

No properties have been disposed of in the period under review.

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

Developing new properties for long-term investment

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.

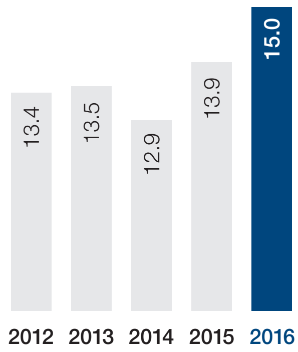
We are marketing the site for pre-lets and are in detailed discussions with a potential occupier for a 43,000 sq ft unit.

Birmingham City Council are currently expected to commence construction of a new link road running alongside our 20 acre site in Tyseley, Birmingham, in 2017. Marketing of our development land is still on hold.

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

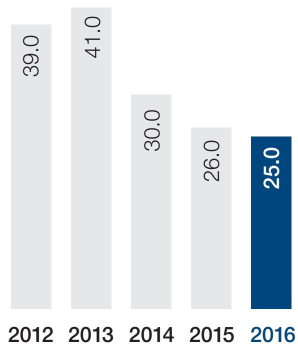
Underlying pre-tax profit

£m



Gearing (net of cash)

%



Property and Finance Review continued

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 and our vacancy rate decreased to 3.2% (2015: 5.4%) over the period. This growth in income and reduction in voids helped to increase net rental income as well as the capital value of the portfolio, with a revaluation surplus of £10.2m over the year.

Further rental growth has been achieved on our industrial unit lease renewals. For instance, renewals at Roman Park, Coleshill, on three units totalling 38,945 sq ft, have been agreed with the annual passing rent increasing by 15.2%, from £0.22m to £0.26m. At Crompton Fields, Crawley, we have achieved a rent increase of 16.7% on a renewal of a 16,967 sq ft unit, to £0.15m pa.

Our only retail unit lease renewal in the period, for a 10 year term without break, was agreed at the current passing rent (£0.19m pa).

Over 165,948 sq ft of new leases were completed during the year at a total annual rent of £1.0m. In February 2016 we let our 39,400 sq ft unit at Golden Cross, Aston, on a 10 year lease without break at a rent of £6.25 psf (£0.25m pa). In April we agreed a lease on a 21,313 sq ft industrial unit at our Wednesbury One scheme at a rent of £5.58 psf (£0.12m). The unit was previously let at £5.04 psf.

Occupancy

Our year-end vacancy rate was 123,976 sq ft (3.2%), compared to 204,334 sq ft (5.4%) at 30 June 2015.

In July 2016 we agreed a surrender of a 24,125 sq ft office building close to Birmingham International railway station just over two months before the lease end date.

A 11,828 sq ft office building in Henley-on-Thames was returned to us on 21 August 2016 following the exercise of a break option.

Although we had limited vacant space when the EU Referendum result was announced, days before our financial year-end, we have not noticed a material decline in occupational trends across our portfolio. In August 2016 we agreed a lease on a 50,238 sq ft unit at Wednesbury One let at the quoting terms of £5.50 psf (£0.28m).

Valuation

The external valuation of the Group's investment and development portfolio at 30 June 2016 totalled £364.2m (2015: £349.7m) leading to a valuation surplus of £10.2m being recognised in the statement of comprehensive income.

The initial yield on the portfolio was virtually unchanged at 6.4% (2015: 6.3%) and the equivalent yield remained at 7.2%.

The revaluation increase of £6.9m recorded in the first half-year represented a surplus of 2.0%. The second half of the financial year saw a further increase of £3.3m (0.9%), after taking into account the impact of the Stamp Duty changes in April 2016, which in isolation reduced our valuation by around £3.5m.

Our independent valuers, Cushman & Wakefield, have highlighted a shortage in transactional evidence in the days between the EU referendum result and the valuation date of 30 June 2016. Further details are provided in note 11 to the financial statements.

Finance Review

The Group's underlying business performed well over the year, with rental income increased through a reduction in void levels, rental growth, acquisitions and recognising a full year of income from the development completed half way through the previous financial year.

Our cost base was virtually unchanged, leading to a £1.1m increase in underlying profit, which has supported the 3% increase in ordinary dividends.

We remain conservatively financed, with a strong balance sheet and a loan to value of only 20%.

In August 2016 we refinanced the £64.0m of facilities we have 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%.

Yield breakdown – investment properties

	Initial yield 30/06/16	Initial yield 30/06/15	**Equivalent yield 30/06/16**	Equivalent yield 30/06/15
Industrial	**6.5%**	6.2%	**7.2%**	7.3%
Office	**7.2%**	7.2%	**8.0%**	7.6%
Retail	**5.7%**	5.9%	**6.4%**	6.4%
Total	**6.4%**	6.3%	**7.2%**	7.2%

Income

Gross rental income increased from £21.6m to £22.9m and property costs, net of service charge income, decreased from £1.0m to £0.9m, leading to an increase in net rental income of £1.4m to £22.0m.

Administration expenses increased slightly, by £0.1m to £3.3m.

Finance costs increased by £0.1m, with bank debt and loan interest up by £0.2m, a decrease in the fair value movement in the interest rate caps of £0.2m and £0.1m of capitalised interest in the prior year.

Underlying profit before tax increased from £13.9m to £15.0m.

Statutory pre-tax profit reduced from £56.2m to £25.2m, mainly as a result of the revaluation surplus of £10.2m being £32.1m lower than the prior year's £42.3m.

Basic and diluted earnings per share reduced from 89.02p to 39.86p due to the decrease in the non-cash valuation surplus. EPRA earnings per share, which mainly excludes the valuation surplus, increased by 7.5% to 23.88p (2015: 22.21p).

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.

Dividend

The Board has considered the Group's dividend policy in the light of market practice in the REIT sector and following discussions with its advisors, it has been decided to increase the frequency of dividend payments by moving to quarterly dividends with effect from October 2016. Part of the final dividend that would have been paid in January 2017 is being brought forward to October 2016.

An interim dividend of 9.59p per share (2015: 9.31p) was paid on 1 July 2016.

Dividends totalling 11.88p per share (2015: 11.53p) are being declared in respect of the 30 June 2016 financial year, making the total in respect of the year ended 30 June 2016 21.47p per share (2015: 20.84p), an increase of 3% over the prior year. The dividends consist of a quarterly dividend of 5.00p and a final dividend of 6.88p. The quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The quarterly dividend of 5.00p will be paid on 17 October 2016 to Shareholders on the register at the close of business on 16 September 2016.

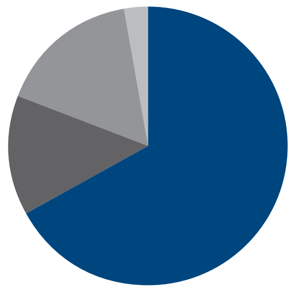
The final dividend of 6.88p will, if approved by Shareholders at the AGM, be paid on 16 January 2017 to Shareholders on the register at the close of business on 16 December 2016.

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.

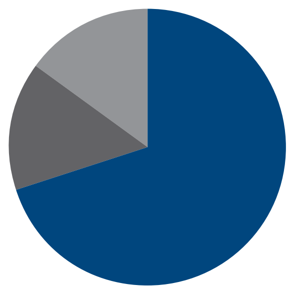
The interim, quarterly and final dividends paid and proposed in respect of the financial year of 21.47p amount to 90% of the EPRA earnings per share figure of 23.88p, and are covered 1.11 times by that earnings measure.

Capital Value
£m



- Industrial 244.2
- Offices 50.6
- Retail 59.5
- Land/Development 9.9

Current Rent per annum
£m



- Industrial 16.6
- Offices 3.6
- Retail 3.5

Property and Finance Review continued

Underlying financial performance

2016	Total £m	Investment/ development £m	Trading properties £m	Other items £m
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)	–	–
Fair value movement on derivative financial instruments	–	–	–	–
Total finance costs	(3.7)	(3.7)	–	–
Total finance income	–	–	–	–
Profit before tax	25.2	15.0	–	10.2

2015	Total £m	Investment/ development £m	Trading properties £m	Other items £m
Gross rental income	21.6	21.6	–	–
Service charge income	1.0	1.0	–	–
Total revenue	22.6	22.6	–	–
Property outgoings	(2.0)	(2.0)	–	–
Net property income	20.6	20.6	–	–
Sale of trading properties	–	–	–	–
Property outgoings on trading properties	–	–	–	–
Net income from trading properties	–	–	–	–
Administration expenses	(3.2)	(3.2)	–	–
Operating profit before net gains on investment	17.4	17.4	–	–
Net gains on revaluation	42.3	–	–	42.3
Profit on disposal of investment and development properties	0.1	–	–	0.1
Operating profit	59.8	17.4	–	42.4
Gross finance costs	(3.5)	(3.5)	–	–
Capitalised interest	0.1	–	–	0.1
Fair value movement on derivative financial instruments	(0.2)	–	–	(0.2)
Total finance costs	(3.6)	(3.5)	–	(0.1)
Total finance income	–	–	–	–
Profit before tax	56.2	13.9	–	42.3

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.

Net assets

Net assets increased by £12.0m in the year, from £268.6m to £280.6m, due to £15.0m of underlying pre-tax profit, a revaluation surplus of £10.2m and share-based payment charges of £0.2m, offset by ordinary dividends of £13.4m.

Net asset value per share increased by 19p, from 424p to 443p, and EPRA net asset value per share also increased by 19p, to 446p.

Financing and cash flow

Net cash generated from operations was £2.6m higher at £15.3m. Cash outflows in respect of property acquisitions and capital expenditure amounted to £4.1m and borrowings increased by £2.3m.

Equity dividends paid in the year totalled £13.2m, compared to £7.1m in the prior year, with the comparative figure being lower due to the interim dividend for the 2015 financial year being paid on 1 July 2015 and therefore included in the 2016 cash flow figures.

	2016 £m	2015 £m
Net cash generated from operations	**18.6**	16.0
From investment and development properties	**18.6**	16.0
From trading properties	**–**	–
Net interest paid	**(3.3)**	(3.3)
Taxation	**–**	–
Operating cash flow	**15.3**	12.7
Property acquisitions and development	**(4.1)**	(8.1)
Property disposals	**–**	0.4
Net expenditure on property, plant and equipment	**(0.1)**	(0.1)
Movement in borrowings	**2.3**	2.1
Equity dividends	**(13.2)**	(7.1)
Net movement in cash	**0.2**	(0.1)

The Group's debt facilities were unchanged in the year. On 31 August 2016 the Group refinanced the HSBC term loan and revolving credit facilities, which now expire in 2021. The table below shows the position as at 30 June 2016.

Borrowing	Expiry year	Available £m	Drawn £m	Undrawn £m
HSBC overdraft	2016	1.0	–	1.0
HSBC Revolving Credit Facility	2018	44.0	18.0	26.0
HSBC term loan	2018	20.0	20.0	–
Lloyds 15 year term loan	2023	20.0	20.0	–
Lloyds 10 year term loan	2022	20.0	20.0	–
Preference shares	–	0.7	0.7	–
		105.7	78.7	27.0

Of the £78.7m of drawn debt shown in the table above, 96% is at fixed rates or covered by interest rate caps.

Our average cost of total debt facilities at 30 June 2016 was 4.1% (2015: 4.1%) or 4.4% on drawn amounts (2015: 4.4%). Following the HSBC refinance in August 2016, the weighted average term remaining on total debt facilities is 5.5 years (2015: 4.6 years).

Property and Finance Review continued

Analysis of borrowings at 30 June 2016

	2016 £m	2015 £m
Preference Share Capital	**0.7**	0.7
Lloyds Term Loan 2023	**20.0**	20.0
Lloyds Term Loan 2022	**19.7**	19.7
HSBC term loan 2018	**19.9**	19.8
Borrowings from revolving credit facility	**18.0**	15.7
Debt and Preference Share Capital	**78.3**	75.9
Cash and short-term deposits	**(7.1)**	(6.9)
Net debt and Preference Share Capital	**71.2**	69.0
Net Assets	**280.6**	268.6
Gearing (net of cash)	**25%**	26%

Outlook

The outcome of the UK's EU Referendum vote has created uncertainty in the property market, but, so far, there has been limited direct impact on the Group. Although it is too early to predict the medium to long-term effects on the Midlands property market, the combination of our focus on industrial property, a conservative financial position and a low level of voids provides us with a strong foundation as we enter the 2017 financial year.

We are encouraged by the lettings completed in the year, the deals that have been signed between the referendum result and the release of these results and the interest in our development land at i54.

We are optimistic about prospects for continuing to grow the Group's rental income over the medium and long-term, to support a progressive dividend policy.

Justin Parker
Managing Director

5 September 2016

David Wooldridge
Finance Director

5 September 2016

Principal Properties

Industrial	Area sq ft
Access Point, Leamington Spa	48,147
Amber Way, Halesowen	61,933
Bewdley Road, Stirchley, Birmingham	54,220
Birchley Island, Oldbury	41,534
Bull Ring Trading Estate, Birmingham	69,054
Camp Hill, Birmingham	124,270
Coleshill Trading Estate, Birmingham	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, Birmingham	76,722
Grange Park, Northampton	86,018
Hazelwell Mills Trading Estate, Stirchley	95,908
Kings Hill Business Park, Wednesbury	126,295
Knightsbridge Park, Worcester	48,145
Long Acre Trading Estate, Birmingham	61,640
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, Birmingham	41,499
Redfern Park Way, Tyseley, Birmingham	36,000
Redwood Trade Park, Oldbury	61,207
Roman Park, Coleshill	84,916
St Andrews Trading Estate, Birmingham	29,705
Shannon Way, Tewkesbury	64,346
Shenstone Trading Estate, Halesowen	168,621
Shire Business Park, Worcester	110,345
Star Gate, Birmingham	87,315
Tachbrook Link, Leamington Spa	85,312
Triton Park, Rugby	77,698
Vantage One, Birmingham	34,920
Wednesbury One, Wednesbury	172,469
Yorks Park, Dudley	157,656

Offices	Area sq ft
Apex House, Apex 6 Business Park, Worcester	18,606
Apex Park, Worcester	28,080
Aztec West, Bristol	31,256
Compton Court, Coventry	15,790
Concorde House, Trinity Park, Solihull	24,125
Dukes Gate, Chiswick, London	17,761
Mucklow Office Park, Mucklow Hill, Halesowen	34,703
Oak Tree Court, Binley Business Park, Coventry	30,000
Quinton Business Park, Birmingham	23,154
309 Reading Road, Henley-on-Thames, Oxon	11,828
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 Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

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

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

EU Referendum

Although there was a period of uncertainty leading up to the announcement of the result of the EU referendum, there did not appear to be any material impacts on our occupational and investment markets during our financial year. Since our year end there has been continued uncertainty about the potential impact of Brexit on property markets and occupational demand for space. There is a risk that investor and occupier demand could be negatively impacted while the terms and timing of exit are being negotiated.

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 balance sheet 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 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 2019.

Going concern

As at 30 June 2016 the Group had £26.0m of undrawn term bank facilities and had drawn £18.0m from its HSBC £44m 2018 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this 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 have been refinanced since the year end and now expire in 2021, the Group's low level of gearing of 25% and £138.4m 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 • Tenant default • Change in demand for space • Market pricing affecting value	• Portfolio diversification between industrial, office and retail properties with different tenant profiles, covenants, building sizes and lease lengths • Building specifications not tailored to one user • Not reliant on one single tenant or business sector • Focused on established business locations for investment acquisitions and developments • Environmental reports for acquisitions • Continual focus on current vacancies and expected changes	↑ The UK economic recovery continued in the year and there is a shortage of quality industrial stock for occupiers in our market. The EU referendum result has created uncertainty in property market prospects.
Financial • Reduced availability or increased cost of debt finance • Interest rate sensitivity • REIT compliance	• Low gearing policy • Large, unencumbered property portfolio available as security • Existing facilities sufficient for spending commitments • Fixed rate debt and hedging in place • Internal procedures in place to track compliance	⇔ Interest costs have remained at historic lows and there is increased competition from lenders, as well as new entrants to the funding market.
People • Retention/recruitment	• Key man insurance • Remuneration structure reviewed • Regular assessment of performance	⇔ The Group has a small team of employees with a very low level of turnover. Remuneration packages and training needs are regularly reviewed.
Development • Speculative development exposure on lettings • Cost/time delays on contracts • Inability to acquire land • Holding too much development land	• Limited exposure to speculative development • Buildings designed to be suitable for a range of tenants • Speculative development is focused on small to medium sized occupiers in well-established business locations • Use of main contractors on fixed price contracts, with contingencies built into appraisals • The main Board carefully considers all development land acquisitions to ensure exposure is limited to reasonable levels and that prices paid are realistic	⇔ No speculative development was undertaken in the year. At 30 June 2016 development land represented less than 3% of the value of the Group's investment and development portfolio.

Key to risk trend

⇔ No change ↑ Trend up ↓ Trend down

Property Case Studies

Church Gate and Coombs Wood

Case Study – Retail

Church Gate, Leicester

19,203 sq ft
£2.8m cost
£0.2m annual rent
Acquired **August 2015**

Case Study – Industrial

Coombs Wood

16,974 sq ft
£1.2m cost
£0.1m annual rent
Acquired **June 2016**

Key Lettings for the Period

Case Study – Industrial

Wednesbury One 2

Area: 21,313 sq ft
Rent per sq ft: £5.58

Let
April 2016

Case Study – Industrial

Wednesbury One 3

Area: 50,238 sq ft
Rent per sq ft: £5.50

Let
August 2016

Case Study – Industrial

Golden Cross

Area: 39,400 sq ft
Rent per sq ft: £6.25

Let
February 2016

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

Equality and diversity

As at 30 June 2016, the composition of the Group's employees, including both Executive and Non-Executive Directors, was as follows:

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

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

Environmental and social policy

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

Environmental policy

There are five main areas of the environmental policy:

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

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

Social policy

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

Planning

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

Developments and refurbishments

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

Review and responsibility

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

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 2016 appear in the table below.

Sources of greenhouse gas emissions	**2015/16 tCO_2e**	2014/15 tCO_2e
Scope 1		
Gas, refridgerants and car fuel	**107**	126
Scope 2		
Landlord controlled electricity	**266**	272
Total footprint	**374**	398
Intensity measure	**tCO_2e/sq ft**	tCO_2e/sq ft
Emissions per 000s sq ft	**1.0**	0.7

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. This is partly due to the fact that Apex Park was let out during the most recent compliance period and also the amount of vacant space from the rest of the portfolio has decreased. These changes are reflected by the intensity measure, which shows a slight increase from 2014/15.

Donations

No political contributions were made during the year (2015: nil) and donations to local and national charities amounted to £2,557 (2015: £10,940).

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 1 to 21, incorporates the Chairman's statement, property and finance review, principal risks and uncertainties, and corporate and social responsibility.

By order of the Board

David Wooldridge
Company Secretary

5 September 2016

Governance Report

Chairman's Introduction to Governance

Rupert Mucklow, Chairman

Dear Shareholder,

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

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

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

The Nomination Committee have held a number of meetings in the year, as Paul Ludlow, Senior Independent Non-Executive Director, has left the Board following 9 years of service as a non-executive director, and Jock Lennox, Chairman of the Audit Committee, confirmed that he would leave the Board at the AGM in November 2016, having served as a non-executive director for 6 years. Following a recruitment process set out on page 27, I am pleased to welcome Ian Cornock and Peter Hartill as new non-executive directors.

I look forward to meeting you at our annual general meeting on Tuesday 15 November 2016.

Rupert Mucklow
Chairman

5 September 2016

Directors and Officers

Rupert Mucklow BSc
Chairman[‡]
Aged 53

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 51

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 44

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 53

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 61

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

Jock Lennox LLB CA
Independent Non-Executive[*†‡]
Aged 60

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

Peter Hartill FCA
Independent Non-Executive[*†‡]
Aged 67

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.

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

Professional Advisers

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

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

Tax adviser
Deloitte LLP
Four Brindleyplace
Birmingham, B1 2HZ

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

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

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

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

* With effect from 1 September 2015, DTZ and Cushman & Wakefield have combined under the new common brand of Cushman & Wakefield

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 2016, other than with regard to Code Provision D.1.1 for the period from 1 July 2015 to the Group's Annual General Meeting in November 2015.

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: Paul Ludlow (Senior Independent Non-Executive), Stephen Gilmore and Jock Lennox. On 21 March 2016, Ian Cornock was appointed to the Board as an Independent Non-Executive director. On 30 June 2016, Paul Ludlow, Senior Independent Non-Executive, resigned as a director and Ian Cornock assumed the Senior Independent Non-Executive role. Mr Ludlow has agreed to become a consultant to the company for a period of 2 years from 1 July 2016. On 1 July 2016, Peter Hartill was appointed to the Board as an Independent Non-Executive director.

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

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

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

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

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

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

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

Jock Lennox was appointed to the Board on 1 December 2010. The Board has considered Mr Lennox's position and the fact that he has had no previous involvement with the Group, and confirms that he is independent.

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.

Statement of Corporate Governance continued

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

David Wooldridge, Ian Cornock and Peter Hartill are seeking re-election as directors at the 2016 Annual General Meeting.

David Wooldridge (44) joined the Group in 1996, was appointed as Company Secretary in 2002 and Finance Director in 2007.

Ian Cornock (52), was appointed to the Board in March 2016. He is 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.

Peter Hartill (67), was appointed to the Board in July 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, with experience across a range of industries and business issues, before leaving in 2008.

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.

Board Committees

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

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

Audit Committee

Jock Lennox has been designated as the member of the Audit Committee with recent and relevant financial experience, being a chartered accountant and former partner of Ernst & Young. He is also chair of the audit committees of Dixons Carphone plc, Enquest plc and Hill & Smith Holdings 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 29 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), Paul Ludlow (Senior Independent Non-Executive) and Jock Lennox until 20 March 2016. From 21 March 2016, the Remuneration Committee also comprised 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 48.

The attendance of the directors at scheduled Board meetings during the year ended 30 June 2016 is as follows:

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

n/a indicates not a member of that committee.

Nomination Committee

The Nomination Committee comprised Rupert Mucklow (Group Chairman), Paul Ludlow (Senior Independent Non-Executive), Stephen Gilmore and Jock Lennox until 20 March 2016. From 21 March 2016 the Nomination Committee also comprised Ian Cornock.

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.

During the year under review, the Nomination Committee met four times to consider the reduction in time commitment of the Chairman and the appointment of the two new non-executive directors to succeed Paul Ludlow as Senior Independent Director and Jock Lennox as Audit Committee Chairman.

The Committee selected Odgers Berndtson, an independent search consultancy with no other connections to the Group, to support them in their search for suitable candidates.

Shareholders

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

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

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

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

Conflicts of interest

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

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

Internal control

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

The Board has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place throughout the current year and up to the date of approval of this annual report and financial statements. The process is regularly reviewed by the Board, based on reports from management, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

Key features of the system of internal control include:

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

Statement of Corporate Governance continued

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 Justin Parker (Managing Director) taking on day-to-day responsibility.

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

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

Statement on internal control

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

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

1. Financial reporting

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

2. Quality and integrity of personnel

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

3. Operating unit controls

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

4. Computer systems

The Group is reliant on an effective computer system to operate its business. The system that it uses is both modern and simple, being a file server based network which operates 20 PCs. The principal operating software is provided by Qube, a leading supplier of generic software to the property management industry. It is fully integrated which provides comfort on the integrity of data transfer between the accounts and property management suites. The Group has a contingency plan in place to cater for complete loss or failure of its own data processing facility and has taken 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

Jock Lennox, Chairman, Audit Committee

Dear Shareholder,

Welcome to the Report of the Audit Committee.

The Committee meets regularly during the year to monitor the integrity of the Group's financial statements and is also responsible for the appointment, review of performance and independence of the external auditor.

The Audit Committee considered the evolving position on auditor rotation and restrictions on the level of non-audit fees during the year under review. As I reported last year, KPMG LLP were chosen to succeed Deloitte LLP as the Group's external auditor, commencing in the current financial year. The Committee has also updated the Group's policy with regard to non-audit services provided by the external auditor, which restricts the work that can be carried out by the external auditor in line with the EU Regulations and only permits taxation services, in exceptional circumstances, if approved in advance by the Audit Committee.

This is the first year that the Group has been required to issue a Viability Statement. The Committee considered the period chosen for the forward-looking period and the elements of the Statement during their review, before recommending the Statement for approval by the Board.

As previously announced, I will be retiring from the Board in November 2016. Peter Hartill joined the Board and Audit Committee in July 2016 and he will succeed me as Chairman of the Audit Committee.

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

Jock Lennox
Chairman of the Audit Committee

5 September 2016

Audit Committee Report continued

Composition of the Audit Committee

The Audit Committee comprised:
Jock Lennox – Chairman
Paul Ludlow (to 30 June 2016)
Stephen Gilmore
Ian Cornock (from 21 March 2016)
Peter Hartill (from 1 July 2016)

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 26.

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

2016 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;
- Agreeing a new policy for the provision of non-audit services by 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 2016 Annual Report and Financial Statements

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

Property valuation

The valuation of the Group's property portfolio, £364.2m at 30 June 2016, 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 25%, 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.

The Committee also asked management to consider whether the result of the EU Referendum had impacted upon the significant judgments in the Annual Report and Financial Statements. Management reported to the Audit Committee that there is, at this early stage, no evidence to suggest that their conclusions on significant matters should be amended. The Audit Committee agreed with this position.

Risk management

The whole Board reviews internal controls and further details are included in the Governance Report on page 27.

A summary of the key risks and uncertainties to which the business is exposed is set out on page 16.

Internal audit

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

The Audit Committee has the power to commission specific additional assurance work from time to time as it sees fit. In the 2016 financial year the Committee noted the 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 2015 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 2015, Deloitte 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 2016.

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 has been adopted during the year under review 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.

As detailed in last year's report, KPMG LLP were appointed following completion of the 2015 Audit. 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 2016 Annual General Meeting.

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

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

Whistleblowing

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

Board Report on Directors' Remuneration

Stephen Gilmore, Committee Chairman

Annual statement

Dear Shareholder,

As trailed at the end of my letter to shareholders last year, following the strong AGM vote in favour of the revised Company Remuneration Policy and the adoption by the Company of the new performance share plan (**2015 PSP**) this has been a year of less heightened activity for the Remuneration Committee than 2014/15.

The support that shareholders gave the Board for both the Remuneration Policy and the Remuneration Report, together with the approval of the adoption of the 2015 PSP, led the Remuneration Committee to conclude that, despite the national debate over executive pay that continues to rage unabated, shareholder satisfaction with executive pay at Mucklow remained at a gratifyingly high level; I hope to be able to maintain that level of satisfaction this year.

Our ethos and policy are serving the Company well and have not changed over the past year. If parts of the following paragraphs dealing with those matters feel familiar to shareholders, that is the reason why.

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. To achieve those aims, the performance-related element of executive remuneration is comprised almost wholly of awards under the Company's performance based share plans, namely the performance share plan adopted in 2007 (**2007 LTIP**) (which still has awards to work through for the next 2 years before the awards made under the 2015 PSP become eligible to vest in 2020) and the 2015 PSP. Under both the 2007 LTIP and the 2015 PSP, participating Executive Directors benefit only if shareholders benefit. Both the 2007 LTIP and the 2015 PSP encourage retention of participating Executive Directors by paying out awards (if at all) only at the end of a 3 year performance period, and, in relation to the 2015 PSP only, a two year holding period, other than in exceptional circumstances.

The performance related element of the Remuneration Policy supports 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. Overall, and despite the years when they do not benefit from the vesting of awards, as has happened this year, we expect participating Executive Directors (currently Justin Parker and David Wooldridge) to benefit from this enhancement of shareholder value through their participation in the 2007 LTIP, the 2015 PSP, and the increase in value of their existing holdings of shares in the Company.

As regards cash bonuses, the Remuneration Committee has not altered its view that 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. Because the Company retains the discretion to award annual cash bonuses, the statutory requirements applicable to the Remuneration Report mean that it has a number of references to the "Annual Cash Bonus Plan". Such bonuses have not been paid for many years. The maximum benefit table on page 40 records theoretical maximum amounts payable to Executive Directors which, because of our approach to cash bonuses, are very unlikely to be paid. I remain of the view that the circumstances in which the Remuneration Committee would exercise its discretion to pay cash bonuses are not likely to arise.

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 unvested awards which may vest in 2017 and 2018 financial years) 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 benchmarked Executive Director remuneration packages against comparable businesses in 2010 when they were independently reviewed by remuneration consultants.

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 approved the following changes in Executive Directors' basic remuneration:

- Rupert Mucklow's basic remuneration was decreased by 24% with effect from 01 May, 2016;
- Justin Parker's basic remuneration was increased by 3% with effect from 01 July, 2016 in line with the increase in Ordinary dividend and other employees of the Company; and
- David Wooldridge's basic remuneration was increased by 25% with effect from 01 July, 2016.

The reasoning behind the changes in Mr. Mucklow's and Mr. Woodridge's remuneration is that in March, 2016, Mr. Mucklow agreed with the board that he would reduce his working hours to the equivalent of 3 days a week with effect from 1st May 2016. This was notified to shareholders in an RNS announcement on 21 March, 2016. The Nominations Committee was fully satisfied that Mr. Mucklow would still be able to perform his role as Executive Chairman, but it necessitated a review of both his and the Finance Director's remuneration, as the reduction in Mr. Mucklow's hours would increase the work and responsibilities falling upon Mr. Wooldridge.

The Remuneration Committee carefully considered the reduction in Mr. Mucklow's working hours, the increase in Mr. Wooldridge's responsibilities, and also the fact that Mr. Wooldridge had considerably developed the role of Finance Director in the 6 years since his remuneration was last independently reviewed. As a result of those deliberations, the Remuneration Committee decided to reduce Mr. Mucklow's and to increase Mr. Woodridge's remuneration as detailed above. In formulating its proposals, the Remuneration Committee had access to independent information published by third party remuneration consultants relating to comparable companies. These decisions were taken following advice from independent remuneration consultants Deloitte LLP, who were asked to provide a paper commenting on the Remuneration Committee's proposals with regards to base salary positioning for the relevant roles taking into account the role, responsibilities and time commitment of the incumbents and internal relativities. They were paid a fee of £2,500 for doing so. They were not asked to carry out a full review of the Executive Directors' remuneration, but rather a sense check of the Remuneration Committee's proposals. The Remuneration Committee were content that Deloitte LLP were well suited to performing this task, given their knowledge of the Company and the Executive Directors' roles and responsibilities, and their familiarity with remuneration levels in comparable companies. The Remuneration Committee was also content that Deloitte LLP were objective and independent, taking into account the level of fees involved and the lack of involvement of Executive Directors in obtaining the advice. The implementation of Mr. Woodridge's increase in basic remuneration followed a positive consultation exercise with major institutional shareholders.

The overall result of these changes was a decrease in Executive Director basic remuneration in the year of £11,941 which (ignoring any other changes) will translate into a decrease in aggregate Executive Director basic remuneration in the year 2016/17 of £17,071.

Board Report on Directors' Remuneration

continued

The details of each Executive Director's pay and benefits package is set out at page 43. 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 I suggested might happen in my letter to shareholders last year, despite the Company having delivered good trading results over the three-year performance period, this year the 2007 LTIP has not benefited the participating Executive Directors at all. This may seem to be an odd result to shareholders when the results of the Company have been consistently good. The reason behind this is the decline in the position of the Company in the comparator group for Total Shareholder Return (**TSR**), the measure used to determine whether an award should vest or not. This highlights what may be perceived to be a weakness in TSR as a performance measure, namely that it is often volatility within the comparator group that delivers rewards. The recovery of companies within the comparator group which started at a low position has resulted in their achieving significantly higher TSRs over the three-year performance period than have been achieved by the Company, resulting in no vesting of awards made 3 years ago. This is illustrated by the table on page 44. However, the participating Executive Directors did benefit over the previous 2 years as the table on page 44 illustrates, and the view of the Remuneration Committee remains that, over all, the operation of the 2007 LTIP has been fair; we anticipate that the operation of the 2015 PSP will also be fair.

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 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. As a result, three other employees below Executive Director level were invited to participate in the 2015 PSP including one who had not previously participated in the 2007 LTIP.

I have attended workshops on executive pay presented by independent consultants and continue to keep myself abreast of developments in what remains a contentious 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

We will continue to monitor and, when appropriate, contribute to the debate on executive pay.

As a result of shareholders having approved a revised Remuneration policy at the last AGM, we are somewhat out of sync with most of the market; barring the unforeseen, the Remuneration Committee does not expect to ask shareholders to consider the Remuneration Policy again until 2018. Be that as it may, 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.

Stephen Gilmore

Chairman of the Remuneration Committee

5 September 2016

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

- The Directors' Remuneration Policy, included on pages 37 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 2015 to 30 June 2016 and how the Company intends to implement the policy in the period 1 July 2016 to 30 June 2017, which, together with the Chairman's Statement, is subject to an advisory shareholder vote.

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

Directors' Remuneration Policy

Remuneration principles

The 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

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

Future policy table

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

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation
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.
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.
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.
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.
2015 Performance Share Plan ("2015 PSP")	To reward executives for delivering the Company's long term strategy and creating sustainable shareholder returns. The use of shares acts as a retention tool and aligns the interests of executives with shareholders.	Grants of nominal priced options are made annually at the discretion of the Committee. 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. 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. 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. 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).

Maximum opportunity	Performance Conditions
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.
Contributions of 15% of base salary or a cash alternative in lieu are made.	No performance conditions apply.
Benefits will be consistent with market practice for similar roles.	No performance conditions apply.
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
Non-executive directors and Rupert Mucklow will not participate in the 2015 PSP. 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 quartile: 100% of award will vest Median: 20% of award will vest Below median: award will lapse Pro-rata vesting in between median and upper quartile. Options will only vest if the Committee is satisfied that the Company has achieved sound underlying financial performance. 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.

Board Report on Directors' Remuneration

continued

Element	Purpose & link to strategy	Operation
2015 Performance Share Plan ("2015 PSP") continued		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.
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.
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.
Shareholding expectation	To align executives' interests with those of shareholders.	The shareholding can be built up over a reasonable time period and includes shares owned outright (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). Executive directors are expected to retain at least 25% of the gross number of shares acquired on the exercise of Options.

Notes to the policy table

a. Annual bonuses are only paid to executive directors in exceptional circumstances and are at the total discretion of the Committee.

b. 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.

Maximum opportunity	Performance Conditions
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.
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.
Applies to executive directors participating in the 2007 LTIP and the 2015 PSP. Expectation: 200% of base salary	N/A

c. 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.

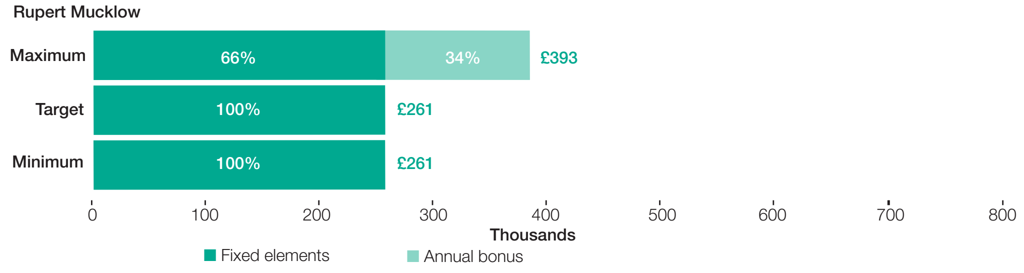
d. Arrangements or agreements entered into prior to 27 June 2012 shall be honoured notwithstanding that they are inconsistent with the remuneration policy set out above. Awards under the 2007 PSP remain part of Directors' Remuneration Policy until they have vested.

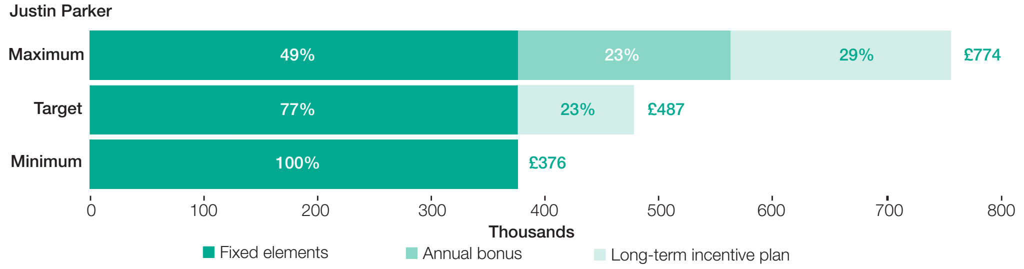
Board Report on Directors' Remuneration

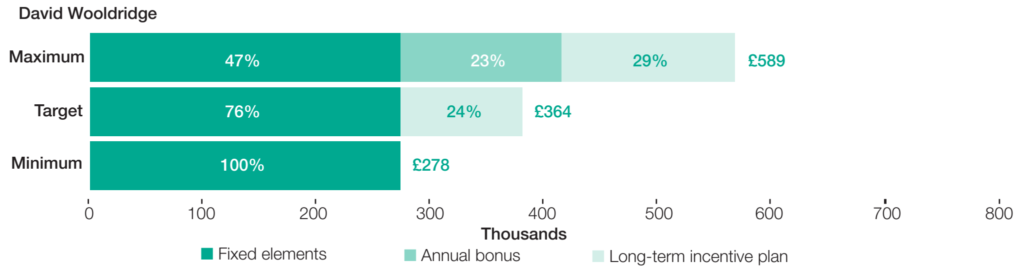
continued

Illustration of application of Remuneration Policy

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







The scenario charts assume:

- Fixed pay: base pay plus retirement benefits for the year ending 30 June 2017, plus the anticipated value of other benefits (assumed for this purpose to be the same as for the year ended 30 June 2016).
- 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.

Non-Executive Directors' Remuneration Policy

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

Approach to recruitment remuneration

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

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

If the Company has to buy out any previous awards from a prior employment for an incoming director it would only do so on a "fair value" equivalence basis and the vesting period of any new awards would reflect the expected timeframe of the original awards. The overall limit on variable pay on recruitment of a new executive director 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.

Board Report on Directors' Remuneration

continued

Service contracts

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

Director	Contract Date	Effective term	Notice period	Pay in lieu of notice
Rupert Mucklow	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 3 years
Jock Lennox	11 November 2014	Every 3 years
Ian Cornock	21 March 2016	Every 3 years
Peter Hartill	1 July 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.

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

The Company received over 98% support for both the Remuneration Report and the Remuneration Policy at the 2015 AGM.

Annual report on remuneration

Single total figure of remuneration for each director (audited)

Directors' emoluments	Basic salary/ Fees 2016	Basic salary/ Fees 2015	Benefits in kind 2016[ii]	Benefits in kind 2015[ii]	Bonus 2016[i]	Bonus 2015[i]	LTIP 2016[iv]	LTIP 2015[iv]	Pension 2016[iii]	Pension 2015[iii]	Total 2016	Total 2015
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive												
Rupert Mucklow	280	283	24	23	–	–	–	–	17	22	321	328
Justin Parker	287	278	40	38	–	–	–	127	41	42	368	485
David Wooldridge	184	179	22	21	–	–	–	82	26	27	232	309
Non-executive												
Paul Ludlow	36	35	–	–	–	–	–	–	–	–	36	35
Stephen Gilmore	36	35	–	–	–	–	–	–	–	–	36	35
Jock Lennox	36	35	–	–	–	–	–	–	–	–	36	35
Ian Cornock[v]	10	–	–	–	–	–	–	–	–	–	10	–
Total	869	845	86	82	–	–	–	209	84	91	1,039	1,227

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

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

iii. Justin Parker and David Wooldridge are members of a defined contribution pension scheme. Rupert Mucklow's pension benefits are made up of pension contributions of £Nil (2015: £Nil) plus salary supplement of £17,167 (2015: £21,667). Justin Parker's pension benefits are made up of pension contributions of £30,000 (2015: £40,000) plus salary supplement of £11,410 (2015: £1,523). David Wooldridge's pension benefits are made up of pension contributions of £23,202 (2015: £26,799) plus a salary supplement of £2,578 (2015: £Nil).

iv. Amounts relate to 2007 LTIP grants made in October 2011, which vested in November 2014, and made in October 2012, which did not vest.

v. Appointed 21 March 2016.

Board Report on Directors' Remuneration

continued

2011 and 2012 LTIP vesting (audited)

Details of Options vesting in the year are included below. The performance condition applied to both the 2011 and 2012 LTIP vesting is as set out in the policy table on pages 36 and 37.

	Justin Parker Option Exercise Year			David Wooldridge Option Exercise Year		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Number of shares over which option may be exercised	64,021	62,609	57,093	36,985	40,205	36,663
Total shareholder return in performance period	85.51%	69.22%	53.80%	85.51%	69.22%	53.80%
Position in comparator group in performance period	2nd of 14	5th of 14	12th of 14	2nd of 14	5th of 14	12th of 14
Vesting level as a percentage of maximum	83%	43%	0%	83%	43%	0%
Number of shares over which option can be exercised	53,349	27,128	–	30,820	17,421	–
Share price (in pence) when option exercised	502	495	–	502	495	–
Value of shares when option vests and is exercised	£267,812	£134,214	–	£154,716	£86,190	–
Subscription price (25p/share)	(£13,337)	(£6,782)	–	(£7,705)	(£4,355)	–
Value of Option to executive	**£254,475**	**£127,432**	**–**	**£147,011**	**£81,835**	**–**
Average value of Options to executive over the three year period		**£127,302**			**£76,282**	

No discretion was exercised in relation to the 2011 or 2012 LTIP vesting.

All Options are normally exercised as soon as practicable after vesting, and will lapse if they are not exercised within 7 years of vesting.

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%)	42,350	£214,926	20% of shares will vest	06/12/2018
David Wooldridge	Nominal cost Option	Annual award with performance conditions. Based on a percentage of salary (75%)	27,195	£138,015	20% of shares will vest	06/12/2018

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. The exercise price of the Options is 25p per share, being the nominal cost of each share.

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 1,444 partnership, matching and free shares, with a value of £7,450 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 2016.

Mr Ludlow resigned from the Board on 30 June 2016 and has been appointed as a consultant for the two year period ending on 30 June 2018. The consultancy fee for the year ended 30 June 2017 is £37,132.

Payments for loss of office (audited)

There were no payments for loss of office in the year ended 30 June 2016.

Statement of directors' shareholding and share interests (audited)

Particulars of the directors' shareholdings in the ordinary share capital of the Company are shown below. There were no other movements in any of the directors' shareholdings between 1 July 2016 and 5 September 2016.

None of the directors had any beneficial interest in the Company's preference shares at either 30 June 2016 or 5 September 2016.

			30 June 2016		
Ordinary shares	**Shareholding expectation**	**Shares held outright**	**Shares held as % of salary**	**Unvested Options with performance conditions**	**Total share interests**
Rupert Mucklow	–	730,646			730,646
Justin Parker	200% of basic salary	80,114	108%	135,874	215,988
David Wooldridge	200% of basic salary	78,133	135%	87,252	165,385
Stephen Gilmore	–	–			–
Jock Lennox	–	3,500			3,500
Ian Cornock	–	–			–
Peter Hartill	–	–			–
TOTAL		**892,393**		**223,126**	**1,115,519**

The share price at the year-end was 397p.

Board Report on Directors' Remuneration

continued

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 2013	456p	44,427	28,529
October 2014	425p	49,097	31,528
December 2015	507.5p	42,350	27,195

Options exercised in year

Options over ordinary shares

Director	No of Options exercised in year	Exercise price (pence)	Market value at date of exercise (pence)	Gain on exercise £
Justin Parker	–	–	–	–
David Wooldridge	–	–	–	–
TOTAL	**–**	**–**	**–**	**–**

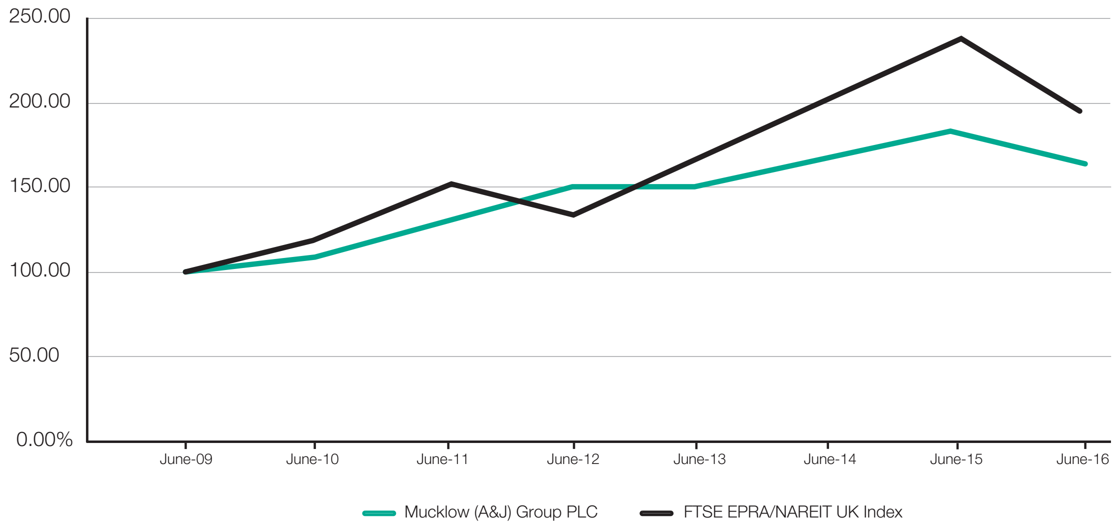
No options were exercised in the year under review.

Movement in executive directors' ordinary shares

Director	Shares held outright 30 Jun 15	Retained from Option exercise	Acquired under SIP	Sold	Shares held outright 30 Jun 16
Justin Parker	81,020	–	1,444	(2,350)	80,114
David Wooldridge	76,689	–	1,444	–	78,133

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 Thomson Financial – Thomson One Banker.

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

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

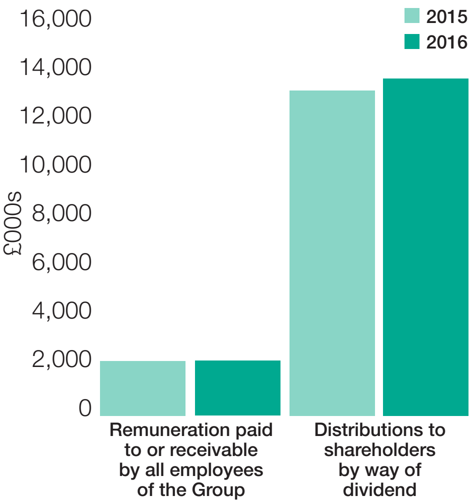
Percentage change in remuneration of director undertaking the role of chief executive officer

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 2014/2015 and 2015/2016. For the purpose of this table, the employee group includes all employees of the group.

	Managing Director Percentage change	Employee group Percentage change
Salary	3%	3%
Taxable benefits	5%	7%
Annual bonus	n/a	n/a

Relative importance of spend on pay

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



Remuneration paid to or receivable by all employees of the Group decreased by 1.2% year on year whilst distributions to shareholders by way of dividend increased by 3.0%. The decrease in employee remuneration is impacted by the reduction in Rupert Mucklow's remuneration, an employee retiring and an additional non-executive director. Base salaries for all other employees actually increased by 3%.

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

The Remuneration Committee currently consists of four non-executive directors: Stephen Gilmore as Chairman, Jock Lennox, 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.

Board Report on Directors' Remuneration

continued

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.

The Remuneration Committee appointed remuneration consultants at Deloitte LLP during the year under review to consider the remuneration of Mr Mucklow and Mr Wooldridge in light of the reduced time commitment of Mr Mucklow and the increased workload of Mr Wooldridge. Deloitte LLP were selected given their knowledge of the Group and the roles and responsibilities of the executive directors, as well as their knowledge of the remuneration of comparable listed and private companies. The Remuneration Committee were satisfied that Deloitte were objective and independent, having taken into account the level of fees paid to Deloitte for these services (£2,500), the lack of involvement of the executive directors in obtaining the advice and the level of supporting third party information that was available to the Committee.

Statement of voting at general meeting

Presented below is a table setting out details of the vote on the Remuneration Policy and Remuneration Report as cast at the 2015 AGM.

		For	Against	Abstain
Remuneration	% of votes	98.40%	1.60%	–
Policy	Number of votes	43,751,765	711,407	33,720
Remuneration	% of votes	98.42%	1.58%	–
Report	Number of votes	43,759,416	703,887	33,589

Statement of implementation of Remuneration Policy in the following financial year (2016/17)

The executive Directors' salaries were reviewed by the Committee in April 2016 in light of the reduction in Mr Mucklow's time commitment and the increased workload and responsibilities of Mr Wooldridge. After seeking advice from remuneration consultants at Deloitte LLP, it was agreed that Mr Mucklow's base salary would be reduced to £220,000 pa with effect from 1 May 2016, and that he would cease to receive a payment in lieu of pension contributions from the same date, and that, after consulting with major shareholders, Mr Wooldridge's base salary would be increased to £230,000 pa with effect from 1 July 2016. Mr Parker's base salary was increased by 3% from 1 July 2016, in line with all other employees in the Group.

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 2016

Executive Director	Base Salary 1 July 2016	Base Salary 1 July 2015	Change
Rupert Mucklow*	£220,000	£291,647	-24%
Justin Parker	£295,163	£286,566	+3%
David Wooldridge	£230,000	£184,021	+25%
Total	**£745,163**	**£762,234**	**-2%**

*Rupert Mucklow's base salary was reduced to £220,000 with effect from 1 May 2016, as noted above.

Fees for non-executive directors with effect from 1 July 2016

Non-Executive Director	Fees 1 July 2016	Fees 1 July 2015	Change
Stephen Gilmore	£37,132	£36,050	+3%
Jock Lennox	£37,132	£36,050	+3%
Ian Cornock	£37,132	£36,050*	+3%
Peter Hartill	£37,132	n/a	n/a

*From date of appointment.

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 2016. The Corporate Governance Statement set out on pages 25 to 28 forms part of this report.

Pages 2 to 21 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 2016, 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 2016 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 £25.2m and the taxation charge was £Nil.

Ordinary dividends

On 1 July 2016, an interim dividend for the period ended 31 December 2015 of 9.59p per share was paid.

Dividends totalling 11.88p per share (2015: 11.53p) are being declared in respect of the 30 June 2016 financial year, making the total in respect of the year ended 30 June 2016 21.47p per share (2015: 20.84p), an increase of 3% over the prior year. The dividends consist of a quarterly dividend of 5.00p and a final dividend of 6.88p. The quarterly dividend and final dividend will both be paid as Property Income Distributions (PIDs).

The quarterly dividend of 5.00p will be paid on 17 October 2016 to Shareholders on the register at the close of business on 16 September 2016.

The final dividend of 6.88p will, if approved by Shareholders at the AGM, be paid on 16 January 2017 to Shareholders on the register at the close of business on 16 December 2016.

Future prospects

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

Directors

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

Rupert Mucklow
Justin Parker
David Wooldridge
Paul Ludlow (to 30 June 2016)
Stephen Gilmore
Jock Lennox
Ian Cornock (from 21 March 2016)
Peter Hartill (from 1 July 2016)

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.

David Wooldridge, Ian Cornock and Peter Hartill 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 45.

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% (2015: 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.

Directors' Report

continued

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 12,418,398 (2015: 12,426,128) Ordinary shares, representing 19.62% (2015: 19.63%) of the issued Ordinary Share Capital.

In addition to the shares held by the Mucklow Concert Party, as at 10 August 2016 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
Prudential plc†	3,091,717	4.88
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 Property and Finance Review on page 13 and in the accounting policies on page 61 of this annual report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Close company provisions

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

Financial instruments

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

Auditor

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

Disclosure of information to the auditor

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

1. so far as the director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
2. the director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

Events since 30 June 2016

Other than the refinancing of the Group's HSBC facilities disclosed in note 29, there were no material events since 30 June 2016 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 15 November 2016 at 11.30am.

By order of the Board

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

5 September 2016

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

5 September 2016

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

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of A&J Mucklow Group plc for the year ended 30 June 2016 set out on pages 55 to 84. 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 2016 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); and
- 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the only risk of material misstatement that had the greatest effect on our audit related to:

Valuation of investment property portfolio (£363.1m)

Refer to page 30 (Audit Committee Report), page 61 (accounting policy) and page 71 (financial disclosures).

The risk – Valuation of investment property is the key area of judgement in the financial statements. It is considered a risk due to its magnitude (97% of total assets) and the subjective nature of the valuations, particularly the estimates made by the qualified independent valuer in relation to market comparable yield rates, future rental changes, quality and condition of the property, void levels and capital expenditure.

Our response – Our procedures included meeting the group's external valuer to understand the assumptions, methodologies used in valuing the investment properties and the market evidence used by the external valuer to support these assumptions.

In addition, with assistance from our own property valuation specialist, we:

- Critically assessed the independence, competence and experience of the external valuers used by the Group by assessing their objectivity, competency and independence,
- Critically assessed the results of their report by checking their valuations were in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS and that the methodology adopted was appropriate by reference to acceptable valuation practice,
- Challenged the key assumptions upon which the valuations were based including those relating to forecast rents, yields, vacant periods and capital expenditure by making a comparison to our own understanding of the market,
- Agreed observable inputs used in the valuations, such as rental income, occupancy rates, lease incentives, break clauses and lease lengths and the Group's property management system and lease contracts.

We also critically assessed the adequacy of the Group's disclosures including the accuracy of the fair value measurement categorisation and adequacy of the valuation technique and significant unobservable inputs (see note 23 to the accounts).

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 £2.5 million, determined with reference to a benchmark of total Group assets.

We report to the audit committee any identified corrected and uncorrected misstatements exceeding £125,000 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 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.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion:

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

5. We have nothing to report on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of Viability on page 16, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 30 June 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

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; or

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 16, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 25 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

5 September 2016

Group Statement of Comprehensive Income

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
Gross rental income	2	**22.9**	21.6
Service charge income	2	**0.9**	1.0
Total revenue	2	**23.8**	22.6
Property costs	3	**(1.8)**	(2.0)
Net property income		**22.0**	20.6
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		**(3.3)**	(3.2)
Operating profit before net gains on investment and development properties		**18.7**	17.4
Profit on disposal of investment and development properties		**–**	0.1
Revaluation of investment and development properties	11	**10.2**	42.3
Operating profit		**28.9**	59.8
Total finance income	7	**–**	–
Total finance costs	7	**(3.7)**	(3.6)
Net finance costs	7	**(3.7)**	(3.6)
Profit before tax	5	**25.2**	56.2
Tax credit	8	**–**	0.1
Profit for the financial year		**25.2**	56.3
Other comprehensive income:			
Items that will not be reclassified subsequently to profit and loss:			
Revaluation of owner-occupied property		**–**	0.1
Total comprehensive income for the year attributable to the owners of the parent		**25.2**	56.4

All operations are continuing.

Basic and diluted earnings per share	10	**39.86p**	89.02p

Statements of Changes in Equity

for the year ended 30 June 2016

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 2014	15.8	13.0	11.2	0.2	0.3	184.5	225.0
Retained profit	–	–	–	–	–	56.3	56.3
Other comprehensive income	–	–	–	0.1	–	–	0.1
Total comprehensive income	–	–	–	0.1	–	56.3	56.4
Share–based payment	–	–	–	–	0.2	–	0.2
Exercise of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.0)	(13.0)
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**

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 2014	15.8	13.0	11.2	–	0.3	143.6	183.9
Retained profit	–	–	–	–	–	12.3	12.3
Share–based payment	–	–	–	–	0.2	–	0.2
Exercise of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(13.0)	(13.0)
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**

Group Balance Sheet

at 30 June 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment and development properties	11	**363.1**	348.6
Property, plant and equipment	12	**1.3**	1.3
Derivative financial instruments		**–**	0.1
Trade and other receivables	13	**0.5**	0.5
		364.9	350.5
Current assets			
Trading properties	14	**0.5**	0.5
Trade and other receivables	15	**2.4**	0.8
Cash and cash equivalents	16	**7.1**	6.9
		10.0	8.2
Total assets		**374.9**	358.7
Current liabilities			
Trade and other payables	17	**(16.0)**	(14.2)
		(16.0)	(14.2)
Non-current liabilities			
Borrowings	19	**(78.3)**	(75.9)
Total liabilities		**(94.3)**	(90.1)
Net assets		**280.6**	268.6
Equity			
Called up ordinary share capital	21	**15.8**	15.8
Share premium	22	**13.0**	13.0
Revaluation reserve	22	**0.3**	0.3
Share-based payment reserve		**0.3**	0.3
Redemption reserve	22	**11.2**	11.2
Retained earnings		**240.0**	228.0
Total equity		**280.6**	268.6
Net asset value per share			
— Basic and diluted	10	**443p**	424p
— EPRA	10	**446p**	427p

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 5 September 2016.

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

Parent Company Balance Sheet

at 30 June 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investments	27	**186.1**	186.1
Derivative financial instruments		**–**	0.1
Trade and other receivables		**0.2**	0.4
		186.3	186.6
Current assets			
Trade and other receivables	15	**45.7**	42.0
		45.7	42.0
Total assets		**232.0**	228.6
Current liabilities			
Trade and other payables	17	**(9.9)**	(9.0)
Borrowings	19	**–**	–
		(9.9)	(9.0)
Non-current liabilities			
Borrowings	19	**(38.6)**	(36.2)
Total liabilities		**(48.5)**	(45.2)
Net assets		**183.5**	183.4
Equity			
Called up ordinary share capital	21	**15.8**	15.8
Share premium	22	**13.0**	13.0
Share-based payment reserve		**0.3**	0.3
Redemption reserve	22	**11.2**	11.2
Retained earnings		**143.2**	143.1
Total equity		**183.5**	183.4

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 5 September 2016.

Group Cash Flow Statement

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Operating profit		**28.9**	59.8
Adjustments for non-cash items			
— Unrealised net revaluation gains on investment and development properties		**(10.2)**	(42.3)
— Profit on disposal of investment properties		**–**	(0.1)
— Depreciation		**0.1**	0.1
— Share based payments		**0.2**	0.2
— Profit on sale of property, plant and equipment		**–**	–
— Amortisation of lease incentives		**(0.3)**	(0.7)
Other movements arising from operations			
— Increase in trading properties		**–**	–
— (Increase)/decrease in receivables		**(1.6)**	0.5
— Increase/(decrease) in payables		**1.5**	(1.5)
Net cash generated from operations		**18.6**	16.0
Interest received		**–**	–
Interest paid		**(3.3)**	(3.3)
Preference dividends paid		**–**	–
Corporation tax refunded		**–**	–
Net cash inflow from operating activities		**15.3**	12.7
Cash flows from investing activities			
Acquisition of and additions to investment and development properties		**(4.1)**	(8.1)
Proceeds on disposal of investment and development properties		**–**	0.4
Net expenditure on property, plant and equipment		**(0.1)**	(0.1)
Net cash outflow from investing activities		**(4.2)**	(7.8)
Cash flows from financing activities			
Net increase in borrowings		**2.3**	6.3
Repayment of debenture stock		**–**	(4.2)
Equity dividends paid		**(13.2)**	(7.1)
Net cash outflow from financing activities		**(10.9)**	(5.0)
Net increase/(decrease) in cash and cash equivalents		**0.2**	(0.1)
Cash and cash equivalents at beginning of year		**6.9**	7.0
Cash and cash equivalents at end of year	16	**7.1**	6.9

Parent Company Cash Flow Statement

for the year ended 30 June 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Operating profit	**13.2**	12.4
Adjustments for non-cash items		
— Share-based payments	**0.2**	0.2
— Decrease in receivables	**13.3**	6.1
— Decrease in payables	**(14.6)**	(12.6)
Net cash generated from operations	**12.1**	6.1
Interest paid	**(1.2)**	(1.1)
Preference dividends paid	**–**	–
Net cash inflow from operating activities	**10.9**	5.0
Cash flows from financing activities		
Net increase in borrowings	**2.3**	6.3
Repayment of debenture stock	**–**	(4.2)
Equity share issue	**–**	–
Cost of equity share issue	**–**	–
Equity dividends lapsed	**–**	–
Equity dividends paid	**(13.2)**	(7.1)
Net cash outflow from financing activities	**(10.9)**	(5.0)
Net increase in cash and cash equivalents	**–**	–
Cash and cash equivalents at beginning of year	**–**	–
Cash and cash equivalents at end of year	**–**	–

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 24.

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 2016 the Group had £27.0m of undrawn banking facilities and had drawn down £18.0m from its HSBC £44m 2018 Revolving Credit Facility. The Group's £1.0m overdraft, which is due for renewal within 12 months of the date of this document, was undrawn. Given these facilities, which have been subsequently refinanced for a further five year term, the Group's low gearing level of 25% and £138.4m 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 discount rate. The valuers also use market evidence of transaction prices for similar properties.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations which have not yet been applied in these financial statements, were in issue, but not yet effective:

- IFRS 9 – Financial Instruments
- Annual Improvements to IFRSs 2012–2014 cycle
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 7 – Disclosure Initiatives (effective date 1 January 2017)
- Amendments to IFRS 10 and IAS 28 – Sale of Contribution of Assets between Investor and its Associate of Joint Venture
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (effective date 1 January 2016)

Notes to the Financial Statements continued

1. Accounting policies continued

- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation
- Amendments to IAS 27– Equity Method in Separate Financial Statements

The Directors anticipate that adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

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.

1. Accounting policies continued

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.

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.

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.

Notes to the Financial Statements continued

1. Accounting policies continued

Taxation

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

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

Pension costs

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

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.

1. Accounting policies continued

Financial assets at FVTPL

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

Cash and cash equivalents

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

Financial liabilities and equity

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

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

	2016 £m	2015 £m
Gross rental income from investment and development properties	**22.9**	21.6
Service charge income	**0.9**	1.0
Income received from trading properties	**–**	–
Total revenue	**23.8**	22.6

3. Property costs

	2016 £m	2015 £m
Service charge expenses	**1.0**	1.0
Other property expenses	**0.8**	1.0
	1.8	2.0

Notes to the Financial Statements continued

4. Segmental analysis

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

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

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

	2016 £m	2015 £m
Investment and development properties		
— Net property income	**22.0**	20.6
— Profit on disposal	**–**	0.1
— Gain on revaluation of investment properties	**8.2**	37.3
— Gain on revaluation of development properties	**2.0**	5.0
	32.2	63.0
Trading properties		
— Income received from trading properties	**–**	–
— Carrying value on sale	**–**	–
— Property outgoings	**–**	–
	–	–
Net income from the property portfolio before administration expenses	**32.2**	63.0
Administration expenses	**(3.3)**	(3.2)
Operating profit	**28.9**	59.8
Net financing costs	**(3.7)**	(3.6)
Profit before tax	**25.2**	56.2

The property revaluation gain has been recognised as follows:

	2016 £m	2015 £m
Within operating profit		
— Investment properties	**8.2**	37.3
— Development properties	**2.0**	5.0
	10.2	42.3
Within other comprehensive income		
— Owner–occupied properties	**–**	0.1
Total revaluation gain for the period	**10.2**	42.4

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:

	2016 £m	2015 £m
Balance sheet		
Investment and development properties		
— Segment assets	365.5	349.2
— Segment liabilities	(6.8)	(5.1)
— Net borrowings	(71.2)	(69.0)
	287.5	275.1
Trading properties		
— Segment assets	0.5	0.5
— Segment liabilities	–	–
	0.5	0.5
Other activities		
— Unallocated assets	1.8	2.1
— Unallocated liabilities	(9.2)	(9.1)
	(7.4)	(7.0)
Net assets	280.6	268.6
Capital expenditure		
Investment and development properties	4.0	7.9
Other activities	0.1	0.1
	4.1	8.0
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

	2016 £m	2015 £m
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	0.1	0.1
(Profit)/loss on the sale of property, plant and equipment	–	–
Net gains on revaluation of investment and development properties	(10.2)	(42.3)
Staff costs (see note 6)	1.9	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 £13.3m (2015: £12.3m).

Notes to the Financial Statements continued

5. Profit for the year continued

Auditor's remuneration — KPMG LLP (2015: Deloitte LLP)

	2016 £000	2015 £000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	50	49
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	19	12
Total audit fees	69	61
Audit related assurance services	13	14
Taxation compliance services	–	34
Other taxation advisory services	–	1
Total non–audit fees	13	49

The fees paid to KPMG LLP in the current 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.

The fees paid to Deloitte LLP in the prior year in respect of other services primarily relate to the half year review, corporate tax compliance work and corporate tax advice, VAT advice and REIT compliance. The level of fees paid to Deloitte LLP for non–audit services during the prior year was reviewed by the Audit Committee, who were satisfied that there was 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:

	2016 Number	2015 Number
Management	6	6
Administration	4	4
Property	5	5
Total employees	15	15

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

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

	2016 £m	2015 £m
Wages and salaries	1.4	1.4
Share–based payment	0.2	0.2
Social security costs	0.2	0.2
Pension costs	0.1	0.1
	1.9	1.9

Pension arrangements

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

Pension contributions (including for directors) paid in the year ended 30 June 2016 amounted to £90,676 (2015: £105,745).

7. Net finance costs

	2016 £m	2015 £m
Finance costs on:		
Preference share dividend	**0.1**	0.1
Fair value movement of derivative financial instruments	**–**	0.2
Capitalised interest	**–**	(0.1)
Bank overdraft and loan interest payable	**3.6**	3.4
Total finance costs	**3.7**	3.6
Finance income on:		
Short–term deposits	**–**	–
Fair value movement of derivative financial instruments	**–**	–
Bank and other interest receivable	**–**	–
Total finance income	**–**	–
Net finance costs	**3.7**	3.6

8. Taxation

	2016 £m	2015 £m
Current tax		
– Corporation tax	**–**	–
– Adjustment in respect of previous years	**–**	0.1
	–	0.1
Deferred tax	**–**	–
Total tax credit in the statement of comprehensive income	**–**	0.1

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

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

	2016 £m	2015 £m
Profit before tax	**25.2**	56.2
Profit before tax multiplied by the standard rate of UK corporation tax of 20.0% (2015: 20.75%)	**5.0**	11.7
Effect of:		
REIT exempt income and gains	**(5.2)**	(11.9)
Losses not recognised	**0.1**	0.1
Share based payments	**0.1**	0.1
Adjustments in respect of prior years	**–**	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 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. Deferred tax has been calculated based on these rates as at 30 June 2016.

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 £14.1m (2015: £13.6m) of properties which have completed development during the previous three years. If these properties had been disposed of at their 30 June 2016 valuation, then tax of £0.5m (2015: £0.4m) would have become payable. No deferred tax has been provided in respect of this potential tax liability as the Group had no plans to dispose of these properties at the balance sheet date.

Notes to the Financial Statements continued

9. Dividends

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 June 2015 of 11.53p (2014: 11.19p) per share	**7.3**	7.1
Interim dividend for the year ended 30 June 2016 of 9.59p (2015: 9.31p) per share	**6.1**	5.9
	13.4	13.0

The Board has decided to move to quarterly dividend payments with effect from October 2016. The quarterly dividend payment of 5.00p (2015: nil) will be paid on 17 October 2016 to shareholders on the register at the close of business on 16 September 2016, totalling £3.2m.

The directors propose a final dividend for the year ended 30 June 2016 of 6.88p (2015: 11.53p) per Ordinary share, totalling £4.4m. 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 16 January 2017 to shareholders on the register at the close of business on 16 December 2016.

10. Earnings per share and net asset value per share

Earnings per share

The basic and diluted earnings per share of 39.86p (2015: 89.02p) has been calculated on the basis of the weighted average of 63,294,833 Ordinary shares (2015: 63,273,435 Ordinary shares) and profit of £25.2m (2015: £56.3m).

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:

	2016 £m	2015 £m
Earnings	**25.2**	56.3
Profit on disposal of investment and development properties	**–**	(0.1)
Net gains on revaluation of investment and development properties	**(10.2)**	(42.3)
Fair value movement on derivative financial instruments	**–**	0.2
EPRA earnings	**15.0**	14.1
EPRA earnings per share	**23.88p**	22.21p

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 94,445 Ordinary shares were granted in the year (2015: 105,418 Ordinary shares) under the 2015 Performance Share Plan (2015: 2007 Performance Share Plan). The vesting conditions for these shares have not been met, so they have not been treated as dilutive in these calculations. The fifth three year award under the 2007 Performance Share Plan vested in the period, with no Ordinary shares being issued and with 112,583 shares lapsed.

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

Net asset value per share

The net asset value per share of 443p (2015: 424p) has been calculated on the basis of the number of equity shares in issue of 63,294,833 (2015: 63,294,833) and net assets of £280.6m (2015: £268.6m). The EPRA net asset value per share has been calculated as follows:

	2016 £m	2015 £m
Equity shareholders' funds	**280.6**	268.6
Valuation of land held as trading properties	**1.9**	1.9
Book value of land held as trading properties	**(0.5)**	(0.5)
Fair value of derivative financial instruments	**–**	(0.1)
EPRA net asset value	**282.0**	269.9
EPRA net asset value per share	**446p**	427p

11. Investment and development properties

Group	**Investment £m**	**Development £m**	**Total £m**
At 30 June 2014	288.2	9.7	297.9
Additions	4.4	3.5	7.9
Lease incentives	0.6	0.1	0.7
Capitalised interest	–	0.1	0.1
Transfer	12.3	(12.3)	–
Disposals	(0.3)	–	(0.3)
Revaluation gain	37.3	5.0	42.3
At 1 July 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 30 June 2016	355.0	8.1	363.1

The closing book value shown above comprises £340.7m (2015: £327.2m) of freehold and £22.4m (2015: £21.4m) of leasehold properties.

	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

Notes to the Financial Statements continued

11. Investment and development properties continued

	Freehold £m	Leasehold £m	Total £m
Properties held at valuation on 30 June 2015:			
Cost	205.6	21.6	227.2
Valuation surplus/(deficit)	121.6	(0.2)	121.4
Valuation	327.2	21.4	348.6

The properties are stated at their 30 June 2016 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 DTZ Debenham Tie Leung Limited.

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit the EU. Since that date Cushman & Wakefield have monitored market transactions and market sentiment in arriving at their opinion of Market Value/Fair Value.

There is still a shortage of comparable evidence of arm's length transactions since the Referendum in many sectors of the market. Cushman & Wakefield had, therefore, to exercise a greater degree of judgement than would be applied under more liquid market conditions.

	2016 £m	2015 £m
Cushman & Wakefield valuation	**364.2**	349.7
Owner–occupied property included in property, plant and equipment	**(1.1)**	(1.1)
Other adjustments	**–**	–
Investment and development properties as at 30 June	**363.1**	348.6

Additions to freehold and leasehold properties include capitalised interest of £nil (2015: £0.1m). The total amount of interest capitalised included in freehold and leasehold properties is £5.4m (2015: £5.4m). Properties valued at £225.8m (2015: £221.5m) were subject to a security interest.

12. Property, plant and equipment

Group	Owner–occupied property £m	Plant and vehicles £m	Total £m
Cost			
At 1 July 2014	1.0	0.5	1.5
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Revaluation	0.1	–	0.1
At 30 June 2015	1.1	0.5	1.6
Depreciation			
At 1 July 2014	–	0.3	0.3
Charged in year	–	0.1	0.1
On disposal	–	(0.1)	(0.1)
At 30 June 2015	–	0.3	0.3
Net book value			
At 30 June 2015	1.1	0.2	1.3
At 30 June 2014	1.0	0.2	1.2
Properties held at valuation:			
Cost	0.9	–	0.9
Valuation surplus	0.2	–	0.2
Valuation	1.1	–	1.1
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

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

Notes to the Financial Statements continued

13. Non–current trade and other receivables

	2016 £m	2015 £m
Mortgage receivables	0.1	0.1
Other debtors	0.4	0.4
	0.5	0.5

The figures shown above are after deducting a provision for bad and doubtful debts of £nil (2015: £nil).

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

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

14. Trading properties

	2016 £m	2015 £m
Land stock	0.5	0.5

15. Trade and other receivables

Group	2016 £m	2015 £m
Falling due in less than one year		
Trade receivables	1.9	0.6
New site deposit	0.3	–
Prepayments and accrued income	0.2	0.2
	2.4	0.8

Company	2016 £m	2015 £m
Falling due in less than one year		
Amounts due from Group undertakings	45.7	42.0
	45.7	42.0

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 (2015: £nil). This allowance has been determined by reference to past default experience.

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

Included in the Group's trade receivable balance are debtors with a carrying amount of £nil (2015: £0.1m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 0 days (2015: 0 days).

15. Trade and other receivables continued

Ageing of past due but not impaired receivables:

Number of days past due	2016 £m	2015 £m
1–30 days	–	–
30–60 days	–	–
60–90 days	–	–
90 days +	–	–
Balance at 30 June past due but not impaired	–	–
Current	1.9	0.6
Balance at 30 June	1.9	0.6

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

	2016 £m	2015 £m
Cash at bank and in hand	7.1	6.9

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	2016 £m	2015 £m
Deferred income in respect of rents and insurances	6.8	5.2
Trade and other payables	8.1	7.7
Accruals	1.1	1.3
	16.0	14.2
Company		
Amounts due to Group undertakings	3.5	2.9
Trade payables	6.2	5.9
Accruals	0.2	0.2
	9.9	9.0

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

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Notes to the Financial Statements continued

18. Borrowings — bank overdraft

The Group's overdraft facility is reviewed annually.

19. Borrowings

Group	2016 £m	2015 £m
Bank loans	**59.6**	59.5
Revolving credit facility	**18.0**	15.7
675,000 (2015: 675,000) Preference shares of £1 each	**0.7**	0.7
	78.3	75.9

Company		
Bank loan	**19.9**	19.8
Revolving credit facility	**18.0**	15.7
675,000 (2015: 675,000) Preference shares of £1 each	**0.7**	0.7
	38.6	36.2

The HSBC facilities were renewed in the 2013 financial year. They consist of a £1.0m overdraft, a £20.0m five year term loan and a £44.0m five year Revolving Credit facility. Of the total £44.0m (2015: £44.0m) revolving credit facilities, £18m (2015: £15.7m) was utilised at 30 June 2016. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies. Since the year–end the HSBC facilities have been renewed for a five year period from August 2016.

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

On 3 October 2012 a further £20.0m was agreed with Lloyds Bank with expiry on 3 October 2022. Interest at 5.23% is payable quarterly, with repayment of capital due at the end of the term. The facilities are secured against certain freehold and leasehold properties held by subsidiary companies.

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

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

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

20. Deferred tax

The Group and Company have a deferred tax asset of £nil (2015: £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.

21. Share capital

	2016 £m	2015 £m
Authorised		
Equity		
117,300,000 (2015: 117,300,000) Ordinary shares of 25p each	**29.3**	29.3
Allotted, Called Up and Fully Paid		
Equity		
63,294,833 (2015: 63,294,833) Ordinary shares of 25p each	**15.8**	15.8

Share options exercised in the year have resulted in the issue of no Ordinary shares in the year (2015: 53,495 Ordinary Shares).

Options over 94,445 Ordinary shares were granted in the year. The conditions for vesting are disclosed in the Board Report on Directors' Remuneration on pages 32 to 48. 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 (2015: £675,000) at nominal value of £1 Preference shares authorised and in issue, representing 4% (2015: 4%) of the Company's capital. These are classified within non–current borrowings, see note 19.

22. Reserves

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

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

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

23. Financial instruments

Capital risk management

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

Gearing ratio

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

	2016 %	2015 %
Net debt to equity	**25**	26

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

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.

Notes to the Financial Statements continued

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 debenture loans, bank borrowings, Preference share capital and overdrafts as disclosed in notes 18 and 19.

Financial risk management

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

Market risk

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

Interest rate risk management

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

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

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 £0.2m (2015: 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 £0.2m (2015: £0.2m).

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

Credit risk management

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

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

The maximum credit risk on financial assets at 30 June 2016 is £9.2m (2015: £7.9m).

23. Financial instruments continued

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

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

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

Liquidity risk management

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

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

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities as at 30 June 2016. 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 one month £m	1–3 months £m	3 months – 1 year £m	1–5 years £m	5+ years £m	Total £m
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**
2015							
Variable interest rate instruments	3.19	0.2	–	0.5	37.0	–	37.7
Fixed interest rate instruments	5.42	–	0.5	1.6	9.0	46.2	57.3
		0.2	0.5	2.1	46.0	46.2	95.0

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.

Notes to the Financial Statements continued

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.

The Group has entered into interest rate caps in respect of £35.0m of the 2018 HSBC term loan and revolving credit facilities (2015: £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 £26.0m at 30 June 2016 (2015: £28.3m), which were due to expire in 2018, but have been refinanced since the year–end. 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 2016 (2015: £1.0m was undrawn). The Group has a fully drawn £20.0m fixed rate loan facility which expires in 2023 (2015: £20.0m), a fully drawn £20.0m fixed rate loan facility which expires in 2022 (2015: £20.0m) and a fully drawn £20.0m variable rate loan facility which was due to expire in 2018 (2015: £20.0m), but which has been subsequently refinanced to expire in 2021.

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 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**

Fair values As at 30 June 2015				
Financial assets				
Interest rate caps	0.1	0.1	–	–
Financial liabilities				
Lloyds Bank loan 2023	20.0	24.7	4.7	23
Lloyds Bank loan 2022	19.7	20.3	0.6	3
HSBC term loan	19.8	20.0	0.2	1
Revolving credit facility	15.7	15.7	–	–
Preference shares	0.7	0.7	–	(3)
	75.9	81.4	5.5	7

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

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 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**	**–**	**–**

	30 June 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment and development properties	–	–	348.6	348.6
Financial assets at FVTPL – interest rate caps	–	0.1	–	0.1
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 2016 valuation, the yields used ranged from 5.0% to 8.8% (June 2015 – 5.0% to 8.9%). Valuation reports are based on both information provided by the Company e.g. current rents and lease terms which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the 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.

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

Group	**2016 £m**	2015 £m
Sterling financial assets:		
Fixed rate	**–**	–
Non–interest bearing	**0.1**	0.1
	0.1	0.1

Notes to the Financial Statements continued

23. Financial instruments continued

The Company has no sterling financial assets.

Financial assets are cash at bank and in hand, short–term deposits, derivative financial instruments and mortgage receivables. There were no money market deposits at either 30 June 2016 or 30 June 2015. Cash at bank is at floating rate based on base rate.

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

24. Contingent liabilities

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

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

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	2016 £m	2015 £m
Not later than one year	21.8	21.5
Later than one year but not later than five years	56.4	58.6
Later than five years	59.0	63.9
	137.2	144.0

Property rental income earned during the year was £22.9m (2015: £21.6m). Direct operating expenses arising on the investment property in the period amounted to £0.9m (2015: £1.0m). No one tenant accounts for more than 7% of annual passing rent.

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

26. Commitments

Group	2016 £m	2015 £m
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	4.5	–

27. Related party transactions

Investments in subsidiaries

Company	£m
As at 1 July 2015	186.1
Impairment	–
As at 30 June 2016	186.1

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

27. Related party transactions continued

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 (2015: £13.1m).

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 32 to 48.

Group	**2016 £m**	2015 £m
Short–term employee benefit	**1.4**	1.4
Post–employment benefits	**0.1**	0.1
Share–based payment	**0.2**	0.2
	1.7	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. 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:

	2016		2015	
	Number of share options	**Exercise price in p**	Number of share options	Exercise price in p
Outstanding at 1 July	**305,607**	**25**	323,649	25
Granted during the year	**94,445**	**25**	105,418	25
Exercised during the year	**–**	**–**	(53,495)	25
Lapsed during the year	**(112,583)**	**–**	(69,965)	–
Outstanding at 30 June	**287,469**	**25**	305,607	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 £0.2m (2015: £0.2m).

The weighted average remaining contracted life of the options outstanding at 30 June 2016 was 1.3 years. The exercise price for all options is 25p per share.

Notes to the Financial Statements continued

28. Share–based payments continued

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

	2016		2015	
	Executive	**Senior management**	Executive	Senior management
Share price at valuation date	**510.0p**	**510.0p**	432.5p	432.5p
Exercise price	**25p**	**25p**	25p	25p
Expected volatility	**24%**	**23%**	36%	36%
Risk–free rate	**1.21%**	**0.82%**	1.19%	1.19%
Expected dividend yield	**4.09%**	**4.09%**	4.74%	4.74%

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 2016 (2015: £0.2m).

29. Post balance sheet events

In August 2016 the Group refinanced the £64m of banking facilities held with HSBC, being a £20.0m term loan and £44.0m revolving credit facility, which were due to expire in March 2018. The facilities have been renewed for a five year term, expiring in August 2021.

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

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

Shareholder Information

for the year ended 30 June 2016

Five year record

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue					
Gross rental income	**22.9**	21.6	21.1	20.4	20.2
Net rental income	**22.0**	20.6	20.1	19.8	19.2
Other income	**–**	–	–	–	1.5
Profit on disposal of investment properties	**–**	0.1	0.3	0.1	0.3
Operating profit	**28.9**	59.8	44.8	19.7	3.2
Profit before taxation	**25.2**	56.2	40.7	16.3	0.1
Capital					
Net assets	**280.6**	268.6	225.0	182.5	177.6
Property portfolio	**364.2**	349.7	298.9	262.7	252.8
Per Ordinary share					
Earnings	**39.86p**	89.02p	66.45p	27.21p	0.28p
Ordinary dividend*	**21.47p**	20.84p	20.23p	19.64p	19.07p
Net asset value†	**443p**	424p	356p	303p	295p

* 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 15 November 2016 at 11.30 a.m. at the Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham B15 3TR.

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

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

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

Financial Calendar 2016/17

Annual General Meeting — 15 November 2016

Results announced

For the half year to 31 December 2016	February 2017
For the year to 30 June 2017	September 2017

Ordinary dividends

Quarterly for 2015/2016	— announce	6 September 2016
	— pay	17 October 2016
Final for 2015/16	— announce	6 September 2016
	— pay	16 January 2017
First quarterly for 2016/2017	— announce	February 2017
	— pay	April 2017
Second quarterly for 2016/2017	— announce	February 2017
	— pay	July 2017

Glossary

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

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

BREEAM is the European Building Research Establishment Environmental Assessment Method.

Company is A & J Mucklow Group plc.

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

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

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

EPRA is the European Public Real Estate Association.

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

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

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

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

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

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

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

IFRS is International Financial Reporting Standards.

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

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

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

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

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

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

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

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

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

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.

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

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

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

Shareholder Notes

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