717658

A&J MUCKLOW

GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2000

MANAGEMENT AND PROFESSIONAL ADVISERS

Directors

Albert J Mucklow ACIS
Chairman
Aged 64. Joined the Group in 1956.
Appointed Chairman in 1976.

Rupert J Mucklow BSc
Managing Director
Aged 37. Joined the Group in 1990.
Appointed executive director in 1995
and Managing Director in 1996.

David F Austin FRICS
Senior Independent Non-executive†*
Aged 61. Appointed to the Board in 1995.
A chartered surveyor and former joint senior partner of Bucknall Austin. He is Chairman of the Audit and Remuneration Committees.

David C Groom FCIB
Independent Non-executive†*
Aged 61. Appointed to the Board in 1996.
A former regional area manager of Midland Bank in Birmingham.

Allan J Mucklow
*Non-executive *†*
Aged 65. Joined the Group in 1957.
Appointed non-executive director in 1977.

Peter M Petherbridge
Non-executive
Aged 53. Appointed to the Board in 1990.
A solicitor practising as P M Petherbridge & Co. devoting a large part of his time to the Group's business.

Senior Management

M David Folkes MCIOB
Stephen N Murphy BSc, FRICS
David Rampling
David Wooldridge ACCA Grad ICSA

Secretary and Registered Office

Derick Bromley ACIS
Haden Cross, Halesowen Road
Cradley Heath
West Midlands B64 7JB

Telephone: (0121) 550 1841
Facsimile: (0121) 550 7532
Website: www.mucklow.com

Company No. 717658

*Member of Remuneration Committee
† Member of Audit Committee

Auditors

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

Stockbrokers

Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

Old Mutual Securities
Temple Court
35 Bull Street
Birmingham B4 6ES

Bankers

HSBC Bank plc
The Bridge
Walsall
West Midlands WS1 1LN

Merchant Bankers

Warburg Dillon Read
2 Finsbury Avenue
London EC2M 2PP

Property Valuers

DTZ Debenham Tie Leung
10 Colmore Row
Birmingham B3 2QD

Solicitors

P M Petherbridge & Co.
Haden Cross, Halesowen Road
Cradley Heath
West Midlands B64 7JB

Registrars

Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham, Kent BR3 4TU

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 30 June 2000.

Results

The profit earned and the dividends paid and proposed are set out in detail in the consolidated profit and loss account and notes. The net profit before taxation for the year was £13,526,168 and the taxation charge was £2,975,975.

Review of business

The Group's activities are reviewed on pages 4 to 13.

Ordinary dividends

On 30 June 2000, an interim dividend of 4·0461p per share was paid. A final dividend of 4·6529p per share is proposed. The total dividend for the year will be 8·6990p per share.

The final dividend, if confirmed, will be paid on 3 January 2001 to shareholders on the register at the close of business on 1 December 2000.

Share capital

The Company purchased on the open market a total of 18,515,326 of its own Ordinary shares for cancellation, during the year under review, at an average price of 175p per share. Since the year end, the Company has purchased for cancellation a further 150,000 Ordinary shares at 174·5p per share on 3 July 2000; 1,535,000 Ordinary shares at 182p per share on 10 July 2000 and 1,270,000 Ordinary shares at 180p per share on 13 September 2000.

Accompanying this report and accounts is a Notice convening an Extraordinary General Meeting which will immediately follow the Annual General Meeting, the purpose of which is to consider renewal, for a further year, of authority to purchase the Company's own shares (both Preference and Ordinary) within certain limits, and to seek approval for waivers of obligations under Rule 9 of the City Code on Takeovers and Mergers. A circular which accompanies the Notice of the Extraordinary General Meeting explains the reasons for the resolutions to be proposed.

Employee share ownership scheme

The Company operates a share ownership scheme. This is an Inland Revenue approved profit-sharing scheme, under which all employees of the Group with a minimum period of service of five years (or employees with lesser service at the Board's absolute discretion) are entitled to receive a limited number of free shares in the Company. The amount of shares receivable by each employee is regulated by tax legislation and, subject to this, will be related to salary.

The shares to be used for the Scheme will be acquired by the trustees in the market, or otherwise from existing shareholders, with funds contributed by the Company. The amount of contributions by the Company will be decided upon by the Board from time to time.

During the year, employees of the Company (including the two executive directors — see note 6) were awarded 33,606 shares with a value of £60,975.

Future prospects

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

Principal activities

The principal activities of the Group are industrial and commercial property investment and development.

Creditors payment policy

The Group seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment which will be agreed with suppliers when the details of each transaction are settled. The Group will continue to honour its contractual and other legal obligations and to pay creditors on the dates agreed in contracts and purchase orders.

The number of creditor days for the Group was 31 (1999: 16). The creditor days figure is significantly affected by property acquisitions and similar transactions. The Company has no trade creditors.

Euro

The Group has considered the effect that the UK's potential entry into the euro zone will have on its business and has performed a preliminary review to check compliance. As no decision has yet been made by the UK Government on a date for the referendum, the Board does not consider that further detailed work should be carried out at this stage but continues to monitor events to see if steps need to be taken.

Environmental policy

The Group has adopted a policy to address the importance of environmental issues in the day-to-day running of the business.

There are two main elements to the policy. Firstly, 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.

The second element of the policy is to maintain an ongoing examination of the business activities of existing and new tenants 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 which might be considered to be an environmental hazard is reported and suitably dealt with.

Donations

No political contributions were made during the year and donations to charities amounted to £1,925 (1999: £2,759).

Directors

The present Board is as shown on page 17 and all directors were in office throughout the year.

Albert J Mucklow, Chairman and Allan J Mucklow, non-executive director, retire by rotation and, being eligible, offer themselves for re-election.

The two executive directors, Albert J Mucklow and Rupert J Mucklow, have one-year rolling service contracts with the Group.

Directors' shareholdings

Particulars of the directors' shareholdings, as defined by Section 324 of the Companies Act 1985, in the Ordinary share capital of the Company are as follows:

	Ordinary shares	
	at 30 June 2000	at 30 June 1999
Albert J Mucklow	3,552,784 (a)	3,554,568(a)
Rupert J Mucklow	983,717	975,551
David F Austin	9,330	6,705
David C Groom	3,000	3,000
Allan J Mucklow	4,012,799	4,012,799
Peter M Petherbridge	2,612,168 (b)	2,612,168(b)

The holdings marked (a) and (b) included non-beneficial interests in 2,806,994 and 2,598,402 Ordinary shares respectively.

On 3 July 2000 Peter M Petherbridge sold 150,000 Ordinary shares held non-beneficially at 174·5p. On the same date Albert J Mucklow sold 16,000 Ordinary shares at 175p and bought 7,884 ordinary shares at 175p. Rupert J Mucklow sold 729 Ordinary shares at 174·5p, 5,746 Ordinary shares at 174·75p and 11,400 Ordinary shares at 175p and purchased 18,874 Ordinary shares at 175p on the same date of 3 July 2000.

On 6 July 2000 Rupert J Mucklow sold 4,793 Ordinary shares at 174p and purchased 6,255 Ordinary shares at 175p.

DIRECTORS' REPORT

There were no other movements in any of the directors' shareholdings between 1 July 2000 and 12 September 2000.

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stocks at either 30 June 2000 or 12 September 2000.

Directors' and officers' liability insurance

During the year the Company purchased and maintained liability insurance for its directors and officers as permitted by section 310(3) of the Companies Act 1985.

Substantial shareholdings

The following shareholders have notified the Company of an interest of 3% or more in the Ordinary share capital of the Company as at 30 June 2000.

	Number	%
Prudential Corporation plc	4,306,300	5·88
Wesleyan Assurance Society	2,820,000	3·85
Framlington Investment Management Limited	2,500,000	3·41
Mrs M A Hickman •	2,769,884	3·78
HSBC Bank (Nominees) A/C 10052601 •	2,427,156	3·31
HSBC Bank (Nominees) A/C 10144801 •	2,236,993	3·05

• The families of Albert J Mucklow (Chairman); Allan J Mucklow (Non-Executive Director and brother of the Chairman); Margaret A Hickman (sister of the Chairman) and Peter M Petherbridge (Non-Executive Director) collectively have an interest in 27,168,503 Ordinary shares (37.1% of the issued Share Capital) and are deemed by the panel on Takeovers and Mergers to form a 'Concert Party'. These shares are included within the 'Concert Party' holding.

Properties

A professional review of the value of the Group's industrial and commercial properties was carried out by DTZ Debenham Tie Leung at 30 June 2000.

This revaluation has been incorporated in the accounts resulting in an increase of £5·94m in the revaluation reserve.

Going concern

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.

Auditors

Deloitte & Touche have expressed their willingness to continue in office. A resolution will be proposed at the Annual General Meeting, in accordance with the Companies Act 1985, to reappoint them and to authorise the directors to fix their remuneration.

By order of the Board

Derick Bromley

Secretary

Haden Cross, Halesowen Road, Cradley Heath
West Midlands, B64 7JB

29 September 2000

STATEMENT OF CORPORATE GOVERNANCE

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

A narrative statement on how the Company has applied the Principles and a statement explaining the extent to which the provisions of the Code have been complied with appears below.

The Code establishes fourteen Principles of Good Corporate Governance which are split into the four areas described as follows.

Directors
The Board of Directors is responsible to shareholders for the management and control of the Company. The present Board consists of two executive directors and four non-executive directors. The Chairman is responsible for the administration of the Board, whilst the Managing Director co-ordinates the Company's business and implements strategy. All directors have the right to take independent professional advice where necessary.

Board meetings are held on a monthly basis 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.

The Board has established a number of standing committees. Each committee operates within defined terms of reference. The main committees are:

1. Audit Committee which comprises David F Austin (Chairman), David C Groom and Allan J Mucklow.
2. Remuneration Committee which comprises David F Austin (Chairman), David C Groom and Allan J Mucklow.
3. Nomination Committee which comprises the four non-executive directors under the chairmanship of the Group Chairman.

The two executive directors have service contracts, both of which have a one-year rolling term.

Directors' remuneration
The Remuneration Committee, under the chairmanship of David F Austin, 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 Report of the Board to the Shareholders on Directors' Remuneration is set out on page 23.

Relations with shareholders
The Company encourages two-way communication with both its institutional and private investors and responds quickly to all queries received either verbally or in writing. All shareholders have at least 20 working days' notice of the Annual General Meeting where all directors and committee members are available to answer questions. Shareholders have access to the preliminary press announcement which is issued through the company website, www.mucklow.com.

Accountability and audit
Detailed reviews of the performance and financial position are included in the Chairman's statement on pages 2 and 3 and the Managing Director's review on pages 4 to 13 to present a balanced and understandable assessment of the Group's position and prospects. The directors' responsibilities for the accounts are described on page 24.

Statement on internal financial control

The Board of Directors is responsible for establishing and maintaining a system of internal financial control which is appropriate to the size of the Group's business and which will provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of the system of internal financial control for the financial year and the period to the date of approval of the financial statements. The key control procedures are described under the following five headings.

1. **Financial reporting**
   The Group operates a budgetary system with annual rolling budgets containing monthly profit and loss 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.

STATEMENT OF CORPORATE GOVERNANCE

Statement on internal financial control (continued)

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 is formally documented and communicated.

3. **Operating unit financial controls**
   The Group has a comparatively simple operating structure which comprises four main 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 17 PCs. The principal operating software is provided by Estate Computer Systems, a leading supplier of generic software to the property management industry. It is fully integrated which provides comfort on the integrity of data transfer between the accounts and property management suites. The Group has a contingency plan in place to cater for complete loss or failure of its own data processing facility and has taken the necessary steps to ensure the security of data on the network.

5. **Controls over central functions**
   The implementation and day-to-day operation of the control procedures is the responsibility of the executive directors and senior management. Given the nature and size of the Group's business the executive directors review and approve all significant transactions, particularly those relating to property purchase and sales, capital expenditure and borrowing arrangements. The Group uses external managing agents on its property portfolio and the terms of their contract and performance are regularly reviewed.

Exceptions to Compliance with Combined Code

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Except for the items outlined below, the Company has complied throughout the accounting period ended 30 June 2000 with the provisions set out in Section 1 of the Code. The exceptions are:

Code Provisions

A.3·2 Only half of the non-executive directors (i.e. 2 out of 4) are independent as defined by the Code. The Board does not consider it appropriate at this stage, given the size of the Group, to elect another non-executive director.

A.6·2 Under the Company's Articles of Association which were adopted in November 1998, a Director appointed to the office of Managing Director has been exempted from retiring by rotation by Clause 96 which states that "A Director appointed to the office of Managing Director shall not, while holding that office, be subject to retirement by rotation". However, the Company intends to update its policy to comply with the Code and henceforth the Managing Director will be subject to retirement by rotation in line with the other directors.

B.1·4 The executive directors do not have a significant proportion of their salary based on performance and are further paid modestly in relation to comparable companies within the sector. The executive directors have significant shareholdings in the Company which ensures that their interests are aligned with those of shareholders generally. As such, no performance based remuneration is considered necessary.

B.2·2 The Remuneration Committee includes one non-executive director who is not "independent" as defined by the Code. The Board does not consider it appropriate at this stage, given the size of the Group, to elect another non-executive director.

D.2·2 The need for an internal audit function is not considered necessary given the size and lack of complexity of the business.

As permitted by the UK Listing Authority, the Company has complied with the Code Provision D.2·1 on internal control by reporting on internal financial control in accordance with the guidance on internal financial control and financial reporting that was issued in December 1994.

The Group has adopted the traditional approach for the internal control aspect of the Combined Code as set out in the letter from the London Stock Exchange dated 27 September 1999.

The Board expects to have the relevant procedures in place in April 2001 necessary to implement the guidance 'Internal Control: Guidance for Directors on the Combined Code'.

BOARD REPORT ON DIRECTORS' REMUNERATION

Remuneration Committee

The Remuneration Committee consists of three non-executive directors: myself as Chairman, David C Groom and Allan J Mucklow. The Committee is responsible for the consideration and approval of the terms of service, remuneration, pension arrangements and other benefits of the Group executive directors. This Report should be read in conjunction with the Directors' Report and with note 6 to the accounts, which constitutes part of this Report.

The Committee consults the Group Chairman on its proposals and has access to professional advice from outside and inside the Group. The policy of the Committee is to provide a competitive remuneration package to executive directors to attract, retain and motivate those individuals and ensure that the Group is managed successfully in the interests of shareholders. In forming remuneration policy the Remuneration Committee has given full consideration to Section 1(B) of the Combined Code, except for pension benefits as detailed below.

Executive directors' remuneration

The main components of the executive directors' remuneration are:

1. salary which is reviewed on an individual basis each year;
2. benefits in kind which relate principally to the provision of a company car;
3. in respect of Rupert J Mucklow only, pension contributions;
4. an all employee, Inland Revenue approved, share ownership scheme. Further details of the scheme are given in the Directors' Report.

Albert J Mucklow has arranged his own pension provision, towards which the Group makes no contributions.

Benefits in kind are pensionable in respect of Rupert J Mucklow only. The Remuneration Committee has carefully considered this exception to the recommendation in Section 1(B) of the Combined Code and is of the opinion that, in the circumstances of the Group, this policy is appropriate in motivating and retaining key personnel.

Service contracts

The two executive directors, Albert J Mucklow and Rupert J Mucklow, have service contracts, both of which have a one-year rolling term.

Non-executive directors do not have service contracts. Their remuneration (which is non-pensionable) is determined by the Board.

Pensions

Pension contributions are made by the Group into existing personal pension schemes on behalf of Rupert J Mucklow. No Group company pension scheme is operated for the other directors (see note 6 to the accounts).

Details of all elements of the remuneration package of each director are given in note 6 to the accounts. Details of directors' share interests are given in the Directors' Report.

The Committee believes that in the Group's circumstances the members in Annual General Meeting need not be invited to approve the remuneration policy set out in this report. As Chairman of the Committee I will be available at the Annual General Meeting to answer questions on any aspect of the remuneration policy.

D. F. Austin

David F Austin
Chairman of the Remuneration Committee
29 September 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing those accounts, the directors confirm that they have:

(a) selected accounting policies which they consider to be suitable and have applied them consistently;

(b) made judgements and estimates that are deemed reasonable and prudent;

(c) followed applicable accounting standards.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

to the Members of A & J Mucklow Group plc

We have audited the financial statements on pages 26 to 42 which have been prepared under the accounting policies set out on pages 32 and 33.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report including, as described on page 24, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or by the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 22 reflects the compliance with those provisions of the Combined Code specified for our review by the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
and Registered Auditors
29 September 2000

Colmore Gate, 2 Colmore Row
Birmingham, B3 2BN

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2000

	Notes	2000 £000	1999 £000
Rental income		**19,980**	22,465
Operating expenses		**(2,089)**	(2,519)
Other income		**1,217**	998
Operating profit	2 & 3	**19,108**	20,944
Profit on disposal of investment properties		**672**	7,340
Profit on ordinary activities before interest		**19,780**	28,284
Other interest receivable and similar income	4	**1,360**	176
Interest payable and similar charges	5	**(7,614)**	(7,585)
Profit on ordinary activities before taxation		**13,526**	20,875
Taxation	7	**(2,976)**	(3,523)
Profit for the financial year		**10,550**	17,352
Dividends (including non-equity dividends)	8	**(6,167)**	(7,467)
Retained profit for the financial year	16	**4,383**	9,885
Earnings per share	9	**12·33p**	18·05p

All the above amounts are derived from continuing operations.

The notes attached are an integral part of the accounts.

CONSOLIDATED BALANCE SHEET

at 30 June 2000

	Notes	2000 £000	1999 £000
Fixed assets			
Tangible	10	**264,458**	266,212
Current assets			
Trading properties	11	**1,767**	1,747
Debtors — due within one year	12	**970**	1,142
— due after more than one year	12	**609**	614
Cash at bank and in hand		**8,333**	40,831
		11,679	44,334
Creditors: Amounts falling due within one year	13	**(24,826)**	(31,212)
Net current (liabilities)/assets		**(13,147)**	13,122
Total assets less current liabilities		**251,311**	279,334
Creditors: Amounts falling due after more than one year	14	**(60,000)**	(65,000)
		191,311	214,334
Capital and reserves			
Non-equity share capital	15	**675**	675
Equity share capital	15	**18,315**	22,944
Revaluation reserve	16	**94,724**	96,331
Capital redemption reserve	16	**7,845**	3,216
Profit and loss account	16	**69,752**	91,168
Shareholders' funds		**191,311**	214,334
Attributable to equity shareholders		**190,636**	213,659
Attributable to non-equity shareholders		**675**	675
		191,311	214,334

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 29 September 2000

The notes attached are an integral part of the accounts.

PARENT COMPANY BALANCE SHEET

at 30 June 2000

	Notes	2000 £000	1999 £000
Fixed assets			
Tangible	10	**875**	725
Investments	18	**9,163**	9,163
		10,038	9,888
Current assets			
Debtors — due within one year	12	**123,114**	138,321
Creditors: Amounts falling due within one year	13	**(12,015)**	(19,658)
Net current assets		**111,099**	118,663
Total assets less current liabilities		**121,137**	128,551
Creditors: Amounts falling due after more than one year	14	**(60,000)**	(65,000)
		61,137	63,551
Capital and reserves			
Non-equity share capital	15	**675**	675
Equity share capital	15	**18,315**	22,944
Revaluation reserve	16	**851**	701
Capital redemption reserve	16	**7,845**	3,216
Profit and loss account	16	**33,451**	36,015
Shareholders' funds		**61,137**	63,551
Attributable to equity shareholders		**60,462**	62,876
Attributable to non-equity shareholders		**675**	675
		61,137	63,551

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 29 September 2000

The notes attached are an integral part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2000

	Notes	2000 £000	1999 £000
Cash flow from operating activities	1	19,580	22,555
Returns on investments and servicing of finance			
Interest received		1,141	219
Interest paid		(7,675)	(7,634)
Non-equity dividends paid		(47)	(17)
		(6,581)	(7,432)
Taxation			
Corporation tax paid		(3,080)	(3,271)
Corporation tax refunded		106	753
		(2,974)	(2,518)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,889)	(13,654)
Sales of tangible fixed assets		13,551	41,295
		8,662	27,641
Equity dividends paid		(10,240)	(3,891)
Cash inflow before financing		8,447	36,355
Financing			
Market purchases of equity share capital		(32,445)	(10,015)
Revolving credit facility		(8,500)	8,500
		(40,945)	(1,515)
(Decrease)/increase in cash in the period	2	(32,498)	34,840

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1 Reconciliation of operating profit to cash flow from operating activities

	2000 £000	1999 £000
Operating profit	**19,108**	20,944
Depreciation	**98**	117
Loss/(profit) on sale of fixed assets	**7**	(12)
Decrease in stocks	**281**	196
Decrease/(increase) in debtors	**346**	(299)
Deposit for the acquisition of property at Mucklow Hill, Halesowen	**—**	1,950
Decrease in creditors	**(260)**	(341)
	19,580	22,555

2 Reconciliation of movement in cash to movement in net debt

(Decrease)/increase in cash in the period	**(32,498)**	34,840
Decrease/(increase) in borrowing in the period	**8,500**	(8,500)
Net debt as at 1 July	**(32,669)**	(59,009)
Net debt as at 30 June	**(56,667)**	(32,669)

3 Analysis of net debt

	1 July 1999 £000	Movement £000	30 June 2000 £000
Cash	40,831	**(32,498)**	**8,333**
Revolving credit facility	(8,500)	**8,500**	**—**
Debentures due within one year	—	**(5,000)**	**(5,000)**
Debentures due after one year	(65,000)	**5,000**	**(60,000)**
	(32,669)	**(23,998)**	**(56,667)**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 £000	1999 £000
Profit for the financial year	**10,550**	17,352
Unrealised surplus on revaluation of properties	**5,943**	19,424
Taxation on realised property revaluation gains	**(904)**	—
Total gains and losses for the financial year	**15,589**	36,776

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2000 £000	1999 £000
Reported profit on ordinary activities before taxation	**13,526**	20,875
Realisation of property revaluation gains of previous years	**7,550**	23,894
Historical cost profit on ordinary activities before taxation	**21,076**	44,769
Historical cost profit for the year retained after taxation and dividends	**11,029**	33,779

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £000	1999 £000
Profit for the financial year	**10,550**	17,352
Dividends	**(6,167)**	(7,467)
Retained profit for the financial year	**4,383**	9,885
Unrealised surplus on revaluation of properties	**5,943**	19,424
Taxation on realised revaluation gains	**(904)**	—
Market purchases of equity share capital	**(32,445)**	(10,015)
Net (decrease)/increase in shareholders' funds	**(23,023)**	19,294
Shareholders' funds at 1 July	**214,334**	195,040
Shareholders' funds at 30 June	**191,311**	214,334

NOTES TO THE ACCOUNTS

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with all applicable accounting standards, except that, as explained below, capital grants received relating to investment properties are deducted from the cost of properties, rather than being amortised to the profit and loss account. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, investment properties are not depreciated. Since the preparation of the financial statements for the previous year end the Group has adopted Financial Reporting Standards up to and including FRS 16. The adoption of these standards has not had any effect on current or prior years.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. A separate profit and loss account is not presented for the Company as permitted by Section 230 of the Companies Act 1985.

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.

Profits on sale of investment and trading properties

Profits on sale of investment properties and trading properties are taken into account on the completion of contracts. Profits arising from the sale of trading properties are included in the profit and loss account as other income as part of the operating profit of the Group. Profits or losses arising from the sale of investment properties are calculated by reference to book value and treated as exceptional items.

Cost of properties

An amount equivalent to the net 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 considered attributable to the financing of developments is capitalised in so far as the resultant book value of the relevant property is not likely to exceed the current market value. Interest is capitalised from the commencement of development to Practical Completion.

Valuation of properties

Investment properties held for the long term are valued at the balance sheet date at open market value. Surpluses and deficits attributable to the Group arising from revaluation are taken to revaluation reserve. Trading properties held for resale are stated at the lower of cost and net realisable value.

Depreciation

In accordance with the Statement of Standard Accounting Practice No. 19, "Accounting for investment properties", no depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years to expiry. This is a departure from the requirements of the Companies Act 1985 which requires all properties to be depreciated. Such properties are not held for consumption but for investment and the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one amongst many factors reflected in the annual valuation of properties and accordingly the amount of depreciation which might otherwise have been charged cannot be separately identified or quantified. The directors consider that this policy results in the accounts giving a true and fair view.

Depreciation is provided on plant and motor vehicles on a straight line basis over the estimated useful lives of between two and ten years.

1 Accounting policies (continued)

Government grants

Capital grants received relating to the cost of building or refurbishing investment properties are deducted from the cost of the relevant property. This is not in accordance with Statement of Standard Accounting Practice No. 4, "Accounting for government grants", but is considered appropriate for the Group's investment in such non-depreciating assets. There is no effect on the Group's results. Revenue grants are deducted from the related expenditure in accordance with Statement of Standard Accounting Practice No. 4.

Deferred taxation

Tax allowances relating to buildings and plant are deducted to arrive at taxable profit. No provision is made for deferred taxation resulting from these tax allowances as they are not expected to reverse in the foreseeable future.

Taxation

In accordance with Financial Reporting Standard No. 16 'Current tax', the tax liability on revaluation movement, resulting from the disposal of investment properties, is charged to reserves.

Pension costs

The costs to the Group of contributions made to defined contribution plans are charged to the profit and loss account as incurred.

Acquisitions

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over the estimated useful life of the acquisition. A maximum life of 20 years will be used. Under the Group's previous policy £134,728 of goodwill has been written off to the profit and loss account as a matter of accounting policy. This would be credited to the profit and loss account on disposal of the business to which it related.

2 Rental income and other income and operating profit

	2000 £000	1999 £000
(a) Operating profit		
Gross rental income	**19,980**	22,465
Property outgoings	**(134)**	(596)
Net rental income	**19,846**	21,869
Sale of trading properties	**1,600**	1,348
Cost of sales of trading properties	**(383)**	(350)
Other income	**1,217**	998
Administration expenses	**(1,955)**	(1,923)
Operating profit	**19,108**	20,944

	2000 £000	1999 £000
(b) Profit on ordinary activities before taxation is stated after charging the following:		
Operating leases — land and buildings	**43**	43
Depreciation	**98**	117
Auditors' remuneration:		
Audit	**25**	23
Other services	**60**	33

NOTES TO THE ACCOUNTS

3 Segmental analysis

	Rental income and other income 2000 £000	Rental income and other income 1999 £000	Operating profit 2000 £000	Operating profit 1999 £000	Net assets 2000 £000	Net assets 1999 £000
Investment properties	**19,980**	22,465	**19,846**	21,869	**184,544**	172,587
Trading properties	**1,600**	1,348	**1,217**	998	**1,767**	1,747
Administration	—	—	**(1,955)**	(1,923)	—	—
	21,580	23,813	**19,108**	20,944	**186,311**	174,334
Short-term investments					**5,000**	40,000
Net assets per balance sheet					**191,311**	214,334

4 Other interest receivable and similar income

	2000 £000	1999 £000
Interest on short-term deposits and investments	**1,304**	117
Mortgage interest	**35**	32
Other	**21**	27
	1,360	176

5 Interest payable and similar charges

	2000	1999
Debenture stocks	**7,562**	7,562
Bank loans and overdrafts	**52**	133
	7,614	7,695
The total has been allocated as follows:		
charged to revenue	**7,614**	7,585
capitalised to cost of properties in the course of development	—	110
	7,614	7,695

6 Information regarding directors and employees

	2000 £000	1999 £000
(a) Directors' emoluments including pension contributions		
Fees	63	60
Management remuneration and taxable benefits	321	306
Share Ownership Scheme	16	16
Pension contributions	17	16
	417	398

	Basic salary £000	Fees £000	Benefits in kind £000	Pension £000	Share scheme £000	Total 2000 £000	Total 1999 £000
Executive							
Albert J Mucklow							
(highest paid director)	187	16	17	—	8	228	220
Rupert J Mucklow	100	—	10	17	8	135	127
Non-Executive							
David F Austin	—	16	—	—	—	16	15
David C Groom	—	16	—	—	—	16	15
Allan J Mucklow	—	16	2	—	—	18	17
Peter M Petherbridge	—	—	4	—	—	4	4
	287	64	33	17	16	417	398

Notes:

i) There were no profit related salary payments.

ii) Benefits in kind relate principally to the provision of a company car.

iii) One director (1999: One director) was a member of a defined contribution pension scheme.

iv) During the last two years the Group operated an all employee share ownership scheme. The two executive directors received the maximum entitlement under the Inland Revenue approved scheme of £8,000 (1999: £8,000) worth of shares in the Company. Non-executive directors are not eligible for the scheme.

v) Peter M Petherbridge is in business on his own account under the style of P M Petherbridge & Co., and that organisation provides legal services to the Group and receives fees from the Group in the normal course of business. The fees paid during the year under review amounted to £175,820 (1999: £207,908). At 30 June 2000 Peter M Petherbridge was, in his capacity as solicitor to the Group, holding £149,024 relating to retentions and deposits (1999: £77,574).

With the exception of Peter M Petherbridge, no director had any other interest in relation to the Group's business.

vi) There are no share option schemes.

6 Information regarding directors and employees (continued)

	2000 Number	1999 Number
(b) Staff numbers and costs		
The average number of persons employed by the Group (including directors) during the year was as follows:		
Management	**6**	6
Administration	**6**	6
Property	**8**	8
Total employees	**20**	20

The aggregate payroll costs (including directors) were as follows:	£000	£000
Wages and salaries	**818**	810
Social security costs	**94**	82
Pension costs	**78**	80
	990	972

(c) Pension arrangements

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

Pension contributions (including directors) paid in the year ended 30 June 2000 amounted to £78,340 (1999: £79,870).

7 Taxation

	2000 £000	1999 £000
Taxation based on profit for the year:		
Corporation tax at a rate of 30% (1999: 30.75%)	**3,149**	3,523
Adjustment in respect of prior year	**(173)**	—
	2,976	3,523

The difference between the effective tax rate and the statutory tax rate of 30% is due to the availability of capital allowances on buildings which are not depreciated. Tax of £103,000 (1999: £300,000) has been charged to the profit and loss account in respect of the exceptional profit on disposal of investment properties. In addition, £904,000 (1999: £nil) has been charged directly to reserves in respect of the tax charged amount previously credited to the revaluation reserve.

8 Dividends

On 7% (formerly 4·9% net) Cumulative Preference non-equity shares	**47**	40
On Ordinary equity shares		
Interim of 4·0461p per share (1999: 3·7637p)	**2,978**	3,454
Proposed final of 4·6529p per share (1999: 4·3284p)	**3,330**	3,973
Overprovision for last year	**(188)**	—
	6,167	7,467

9 Earnings per share

Calculated on the basis of the weighted average of 85,212,798 (1999: 95,916,228) Ordinary shares and earnings, net of preference dividend, of £10,503,161 (1999: £17,311,955). There are no dilutive shares.

10 Tangible fixed assets

(a) Group

	Freehold £000	Leasehold £000	Plant and vehicles £000	Total £000
At 1 July 1999				
At valuation	242,195	23,805	—	266,000
At cost	—	—	800	800
Additions	5,528	—	58	5,586
Disposals	(13,161)	—	(30)	(13,191)
Revaluation surplus/(deficit)	6,033	(90)	—	5,943
At 30 June 2000	**240,595**	**23,715**	**828**	**265,138**
Depreciation:				
At 1 July 1999	—	—	588	588
Charged in year	—	—	98	98
Disposals	—	—	(6)	(6)
At 30 June 2000	—	—	**680**	**680**
Net book value comprises:				
At valuation	240,595	23,715		264,310
At cost	—	—	148	148
At 30 June 2000	**240,595**	**23,715**	**148**	**264,458**
At 30 June 1999	242,195	23,805	212	266,212

The values of freehold and leasehold properties were reviewed at 30 June 2000 on an open market basis by DTZ Debenham Tie Leung.

Additions to freehold properties include capitalised interest of £Nil (1999: £110,090).

On a historical cost basis properties which have been revalued would be included at the following amounts:

	2000 £000	1999 £000
Freehold	**148,694**	148,777
Leasehold	**15,556**	15,556
	164,250	164,333

(b) Company	Freehold £000
At valuation 1 July 1999	**725**
Revaluation surplus	**150**
At valuation 30 June 2000	**875**

On a historical cost basis the freehold property would be included at £24,468.

11 Trading properties

	2000 £000	1999 £000
Land stock	**1,767**	1,747

NOTES TO THE ACCOUNTS

12 Debtors

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Falling due within one year				
Trade debtors	613	—	879	—
Group undertakings	—	119,736	—	134,666
ACT recoverable	—	—	50	1,345
Corporation tax paid on behalf of Group companies	—	1,100	—	—
Group relief receivable	—	2,278	—	2,310
Prepayments and accrued income	357	—	213	—
	970	123,114	1,142	138,321
Falling due after more than one year				
Mortgages receivable	609	—	614	—
	1,579	123,114	1,756	138,321

The mortgages are receivable on disposal of the secured properties.

13 Creditors: Amounts falling due within one year

	2000		1999	
	Group £000	Company £000	Group £000	Company £000
Rents and insurances in advance	4,455	—	4,344	—
Trade creditors	2,341	7	1,940	—
Corporation tax	4,431	—	3,576	12
Accruals and deferred income	4,969	3,678	5,102	3,696
Other creditors	300	—	300	—
Revolving credit facility	—	—	8,500	8,500
Proposed dividends	3,330	3,330	7,450	7,450
13¼% First Mortgage Debenture Stock	5,000	5,000	—	—
	24,826	12,015	31,212	19,658

During the previous year the Group arranged a £20 million five-year revolving credit facility with HSBC Bank plc. Security has been given over certain freehold properties held by the Group.

On 19 June 2000, the revolving credit was reduced to £15 million until 31 October 2000, when it reverts to £20 million. For the same period, the Group's overdraft limit has been increased from £5 million to £10 million. The Group's overdraft facility is reviewed annually.

Notice was sent to holders of the 13¼% First Mortgage Debenture Stock on 1 June 2000, advising them that the Group would redeem the stock on the earliest available redemption date of 30 September 2000.

14 Creditors: Amounts falling due after more than one year

	Group and Company 2000 £000	Group and Company 1999 £000
13¼% First Mortgage Debenture Stock 2000/05	—	5,000
11½% First Mortgage Debenture Stock 2014	**60,000**	60,000
	60,000	65,000

The 11½% First Mortgage Debenture Stock 2014 is secured by first legal mortgages on certain freehold and leasehold properties and by a first floating charge on the undertakings and all the property assets and rights present and future including any uncalled capital of A & J Mucklow (Properties) Limited, a wholly owned subsidiary undertaking of the Company.

The 11½% First Mortgage Debenture Stock 2014 is redeemable at par on the final redemption date. The Company may purchase this stock at any time in the market or by tender.

15 Share capital

	2000 Authorised £000	2000 Allotted, called up and fully paid £000	1999 Authorised £000	1999 Allotted, called up and fully paid £000
Non-equity				
675,000 7% (formerly 4·9% net) Cumulative Preference shares of £1 each	**675**	**675**	675	675
Equity				
73,260,058 (1999: 91,775,384) Ordinary shares of 25p each	**18,315**	**18,315**	22,944	22,944
44,039,942 (1999: 25,524,616) Ordinary shares of 25p each	**11,010**	—	6,381	—
	30,000	**18,990**	30,000	23,619

The Company purchased on the open market a total of 18,515,326 of its own Ordinary shares for cancellation at an average price of 175p per share. Since the year end, the Company has purchased for cancellation a further 150,000 Ordinary shares at 174·5p per share on 3 July 2000; 1,535,000 Ordinary shares at 182p per share on 10 July 2000 and 1,270,000 Ordinary shares at 180p per share on 13 September 2000.

7% Cumulative Preference shares

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 April 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.

16 Reserves

(a) Group	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 1999	96,331	3,216	91,168	190,715
Retained profit	—	—	4,383	4,383
Market purchases of equity share capital	—	4,629	(32,445)	(27,816)
Surplus on revaluation	5,943	—	—	5,943
Realised revaluation gains	(7,550)	—	7,550	—
Taxation on realised property revaluation gains	—	—	(904)	(904)
At 30 June 2000	**94,724**	**7,845**	**69,752**	**172,321**

(b) Company	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 1999	701	3,216	36,015	39,932
Retained profit	—	—	29,881	29,881
Market purchases of equity share capital	—	4,629	(32,445)	(27,816)
Surplus on revaluation	150	—	—	150
At 30 June 2000	**851**	**7,845**	**33,451**	**42,147**

The profit for the year of the Company, before dividends, was £36,048,173 (1999: £16,543,016).

17 Deferred taxation

No deferred tax has been provided. The amount of unprovided deferred tax at 30% (1999: 30%) can be analysed as follows:

	2000 £000	1999 £000
Accelerated capital allowances	**9,562**	10,648
Short-term timing difference	—	—
Gains rolled over	**18**	—
Surplus on revaluation	**15,496**	13,940
	25,076	24,588

Deferred taxation in the company is not material.

18 Investment in subsidiary undertakings

	2000 £000	1999 £000
Shares		
At cost	**386**	386
At valuation	**8,777**	8,777
	9,163	9,163

The shares in the subsidiary undertakings are stated at Directors' valuation. The historical cost information is not readily available.

19 Financial instruments

The Group's principal financial instruments are debenture loans, bank borrowings, preference share capital, cash and short-term deposits. The Group's use of financial instruments is detailed in the Operating Review on pages 11 and 13.

The disclosures below exclude short-term debtors and creditors.

Interest rate risk and profile	2000 £000	1999 £000
Sterling financial liabilities:		
Fixed rate	**65,675**	65,675
Floating rate (not hedged)	**—**	8,500
	65,675	74,175

The weighted average interest rate on fixed rate financial liabilities at 30 June 2000 was 11·59% (1999: 11·59%). These liabilities, excluding the preference share capital, are fixed for a weighted average period of 12·9 years (1999: 13·9 years).

	2000 £000	1999 £000
Sterling financial assets:		
Floating rate (not hedged)	**3,409**	40,904
Fixed rate	**5,169**	163
Non-interest bearing	**364**	378
	8,942	41,445

Financial assets are cash at bank and in hand, short-term cash deposits and mortgages receivable. The weighted average interest rate on Money Market deposits at 30 June 2000 was 6·13%, and is fixed for a weighted average period of 3·1 months. Cash at bank is at a floating rate based on LIBOR.

Liquidity risk and maturity profile

As stated in the Operating Review, the Group's policy for financing the business is mainly through the use of fixed rate long-term loans. With this in mind the debt structure for the Group at 30 June 2000 was as follows:

	2000 £000	2000 %	1999 £000	1999 %
In less than one year	5,000	8	8,500	11
In more than five years	60,675	92	65,675	89
	65,675	**100**	74,175	100

Fair values As at 30 June 2000	Book Value £000	Fair Value £000	Fair value Adjustment £000	% of Book value
13¼% First Mortgage Debenture Stock 2000/05	5,000	4,975	(25)	(1)
11½% First Mortgage Debenture Stock 2014	60,000	86,100	26,100	44
Preference share capital	675	565	(110)	(16)
Net debt and Preference share capital	**65,675**	**91,640**	**25,965**	**40**

As at 30 June 1999	£000	£000	£000	%
13¼% First Mortgage Debenture Stock 2000/05	5,000	5,400	400	8
11½% First Mortgage Debenture Stock 2014	60,000	89,100	29,100	49
Preference share capital	675	567	(108)	(16)
HSBC Bank plc revolving credit facility	8,500	8,500	—	—
Net debt and Preference share capital	74,175	103,567	29,392	40

The fair values of the debenture stocks and preference share capital are based on the mid price at the close of business of those instruments as sourced from the Daily Official List for 30 June 2000 and 1999 respectively.

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

NOTES TO THE ACCOUNTS

20 Contingent liabilities

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

21 Commitments

	2000 £000	1999 £000
(a) Capital		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	3,777	1,386
The amount of capital expenditure authorised in addition to the above commitments	1,500	850
(b) Operating leases		
The annual commitment under a non-cancellable operating lease is as follows:		
Operating leases for land and buildings which expire in over five years	43	43

22 Subsidiary undertakings

A & J Mucklow Group plc has the following wholly owned principal subsidiary undertakings. All were registered and operate in England and Wales.

Property investment and development

Barr's Industrial Limited
A & J Mucklow (Birmingham) Limited
A & J Mucklow (Investments) Limited
A & J Mucklow (Properties) Limited

Trading

A & J Mucklow & Co Limited