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MUCKLOW

Real estate investors and developers

A&J Mucklow Group plc

Annual Report and Accounts 2007

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 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

Contents

Financial Highlights

- **Profit before tax of £33 4m (2006: £36 4m)**
- **Earnings per share 86 62p (2006: 45 24p)**
- **Ordinary dividend per share[1] up 7 4% to 14 73p (2006: 13 71p)**
- **Adjusted net asset value per share[2] up 3 2% at 445p (2006: 431p)**
- **Net assets £259 3m (2006: £215 7m)**
- **Year end gearing (net of cash) 7% (2006: 3%)**

Notes

(1) Recommended final dividend of 8 04p (2006 7 48p), making the total for the year ended 30 June 2007 14 73p (2006 13 71p)

(2) EPRA (European Public Real Estate Association) net asset value excluding deferred tax and including the surplus on trading properties and the mark to market of debenture stock see note 9 for details

Chairman's Statement

I am pleased to report another strong performance by the Group and excellent progress made during the year towards refocusing our business, in readiness for conversion to a Real Estate Investment Trust ("REIT") on 1 July 2007

Pre-tax profit for the year ended 30 June 2007 was £33 4m, compared with £36 4m for the corresponding period last year The adjusted pre-tax profit*, excluding gains on the revaluation of the property portfolio, profit on the sale of investment properties and the premium paid on the redemption of debenture stock was £19 7m (2006 £12 0m)

Shareholders' funds increased from £215 7m to £259 3m as at 30 June 2007 Borrowings net of cash amounted to £17 6m (2006 £6 8m), representing 7% of Shareholders' funds The EPRA# net asset value per share, which includes the surplus in the value of trading properties, rose from 431p to 445p per share†

The Board is recommending the payment of a final dividend of 8 04p per Ordinary share, making a total for the year of 14 73p per share, an increase of 7 4% over last year's total of 13 71p per share If approved by Shareholders, the dividend will be paid on 31 December 2007, to Shareholders on the register at the close of business on 30 November 2007

The Group elected to become a REIT with effect from 1 July 2007, following Shareholder approval to amend the Articles of Association at an EGM on 23 May 2007 The anticipated cost of conversion is £5 9m, based on 2% of the value of the investment and development properties at our year end (£5 7m) and professional fees (£0 2m) incurred, which has been reserved in the accounts, reducing our net asset value per share by 10p

Also included in these accounts is a net contribution of £31 4m to Shareholders' funds, from the write-back of our deferred tax liability, amounting to 52p per share In future, the Group will no longer pay corporation tax on qualifying rental income, or gains from the disposal of investment properties, providing 90% of its income profits are distributed as dividends to Shareholders and certain other conditions are met The tax savings should allow us to increase the Ordinary dividend by around 20% next year The first REIT dividend will be paid in June 2008

Property Review

The last 12 months have been an exciting period for the Group We have acquired a further 29 acres of commercial land and increased the development programme We have also bought for cancellation the majority of our high coupon debt and sold a large tranche of our trading stock

At the same time, we have continued to actively manage our investment portfolio, to enhance property values and have pursued a number of strategic investment acquisitions and disposals, which should benefit us in the future

Our core investment portfolio has continued to perform well Most of our properties are modern, in prime locations and provide steady rental and capital growth Occupancy levels have been maintained at around 94%, while additional rent from reviews and lease renewals has increased annual rental income by £0 4m (2 7%) Investment acquisitions and new developments added £0 9m to the rent-roll, while disposals reduced it by £0 7m

As reported at the interim stage, we sold our Wates Way Industrial Estate, Mitcham, Surrey, in September 2006 for £13 8m and obtained outline planning consent for a large mixed use development, on the site of our Bull Ring Trading Estate, Birmingham We also acquired a prominent investment property during the year, close to the Bull Ring Trading Estate, for £5 4m The property currently produces a rent of £400,000 per annum and offers long term redevelopment potential

Construction has started on three new speculative developments at Worcester (28,000 sq ft offices), Dudley (41,000 sq ft industrial) and Wednesbury (40,000 sq ft industrial), with completions due between December 2007 and February 2008 When the buildings are fully let, they are forecast to add £0 9m per annum of rental income The anticipated cost of the current development programme is £10m The completed end value is estimated to be around £13 7m One of the benefits of being a REIT, is that no capital gains tax will be payable by the Group on the disposal of investment properties, providing the properties are held for a minimum period of three years

Our commercial land bank now extends to over 50 acres, with potential to develop in excess of 1m sq ft of new business space We are currently marketing a number of sites for pre-let buildings and intend to maintain a rolling development programme of speculative units, where occupier demand is strong

DTZ Debenham Tie Leung valued our investment properties at 30 June 2007 The investment portfolio, which includes commercial land and new developments under construction, was valued at £288 3m (2006 £258 7m) leading to a revaluation increase of £16 5m (2006 £28 2m) for the year (6 0%)

As a REIT, we will focus on the development and long-term investment of commercial and industrial property, mainly around our traditional area of the Midlands We shall be restricted on the amount of profit that can be generated from trading activities As a consequence, we decided to reduce the level of our trading stock during the year, selling 11 acres of residential land, for £10 7m, which produced a trading profit of £10 2m Since the year end, we have sold a further 2 3 acres of residential land for £2 6m

DTZ Debenham Tie Leung also valued our trading properties as at 30 June 2007 The majority of trading properties comprise land with planning permission for residential use The trading properties were valued at £10 0m (2006 £18 9m), which showed a surplus over book value of £9 0m, equivalent to 15p per share

In the first half of the year, we bought in for cancellation £11 7m of our 11 5% First Mortgage Debenture Stock, at a cost of £16 6m The debt was due to mature in 2014 and the interest saving is £1 3m per annum The premium paid to redeem the debenture stock early was £4 9m (£3 5m post-tax), which reduced our net asset value per share by 6p There remains £4 2m of the original £60m debenture issue outstanding

Board Changes

On 1 March 2007 we welcomed Paul Ludlow FRICS as a non-executive director Paul was previously Managing Director of Severn Trent Properties and has considerable experience and knowledge of the Midlands property market On 30 June 2007, Peter Petherbridge (60) retired as an executive director and on 1 July 2007 David Wooldridge (35) FCCA ACIS was appointed to the Main Board

Peter Petherbridge joined the Company in 1974 as Group Solicitor and became a director in 1990 Peter has made a valuable contribution towards the success of the business over the last 33 years and we wish him well in his retirement The Group's legal property work will now be carried out by Messrs Wragge & Co Peter will remain as a consultant for a period of 12 months

I am delighted that David Wooldridge has been promoted to the Board as Finance Director David joined us as an Accountant in 1996 and was appointed to the position of Company Secretary in 2002

Since the year end, David Groom (68) has notified the Board that he will not be seeking re-election as a non-executive director at this year's AGM and will retire from the Board on 31 October 2007 I have had the pleasure of working closely with David over the last eleven years, first as Managing Director, then as Chairman, and would like to thank him for his wise counsel and commitment to the Group

Outlook

After a couple of years of exceptional growth in capital values, there are signs that higher interest rates and a change in Investor sentiment are slowing the property market and providing more modest returns for Investors Over the next 12 months we expect a widening of the yield gap between prime and secondary properties However, we do not anticipate any significant correction in the value of our modern investment portfolio and remain positive about continuing to grow the business

Our low gearing and new REIT status will provide us with opportunities to capitalise on any potential slowdown in the market, and our selective development programme should continue to generate additional revenue

Rupert J Mucklow
Chairman
28 September 2007

* See note 9 for the adjustments
# European Public Real Estate Association
† See note 9 for the calculations

Property and Financial Review

2006/07 was another year of reorganisation within the Group Against the background of a strong financial performance, we have continued to shape our business in preparation for becoming a REIT with effect from 1 July 2007

Strategy

Our long-term objective remains focused on accumulating a quality portfolio of modern, income producing properties, with potential for long-term rental and capital growth The three main areas of our strategy are

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

Whilst asset management is an ongoing process, we are continually monitoring the property market for investment and development opportunities and adapting our short-term strategy accordingly

Investment

We are now concentrating our market focus on the Midlands Region, where the fundamental economic and property drivers remain strong It is this inherent specialisation and focus of the Group's existing portfolio that will position us well to take full advantage of the REIT status As a part of this realignment of assets we have, during the year, taken advantage of the strength of the investment market to dispose of an industrial estate in Mitcham, Surrey for £13 8m This disposal contributed £2 2m to profit before tax and was sold on a yield of 5 25%

We purchased one investment property during the year for £5 4m, producing a rent of £400,000 per annum The property occupies a prominent site of 4 acres on Digbeth High Street, Birmingham, close to our Bull Ring Trading Estate and offers excellent long-term redevelopment potential

Since the year end, we have acquired a modern 48,000 sq ft industrial investment, in Leamington Spa for £3 7m The property has recently been let at a rent of £252,500 per annum and offers good growth prospects

We remain ever mindful of the evolving property market It seems clear that the downward yield shift that has so typified the investment market over recent years has slowed to such an extent that it could be argued that this extraordinary period of growth in UK commercial property values has now run its course We regard this slowdown as a clear opportunity to use our strong financial position to acquire prime investment properties, or properties with long-term redevelopment potential

Development

Even though the investment market is showing signs of cooling down, occupier demand remains strong for quality, well-located modern business space It is through our ongoing development programme that we continue to capitalise on this demand to increase the value of our property portfolio and rental income stream, therefore enabling us to continue our progressive dividend policy

The commercial land bank for future developments has continued to grow We now have 50 acres of land in seven different locations, 29 acres having been acquired during the year All sites are being actively marketed for pre-lets We are currently working through the planning process on the latest land acquisitions and started new developments and major refurbishments in Dudley, Worcester, Wednesbury and Coleshill

Our current development programme comprises four industrial units totalling 81,000 sq ft and four office buildings with a combined area of 28,000 sq ft We also have 32,000 sq ft of industrial property being substantially refurbished to create a trade park When completed and let, the properties should contribute in excess of £1 1m to the annual rent-roll

Property and Financial Review

CURRENT DEVELOPMENT PROGRAMME

Property	Area sq ft	Acreage	ERV £ pa	Complete	Units	Unit sizes (sq ft)
Industrial						
Yorks Park, Dudley (phase 1)	41,000	2 5	200,000	Dec 07	2	18,000/23,000
Wednesbury One, Wednesbury	40,000	2 2	210,000	Feb 08	2	2 × 20,000
Trade Park						
Coleshill Trade Park, Coleshill	32,000	2 2	260 000	May 08	11	3,300–3 600
Office						
Apex Court, Worcester (phase 1)	28,000	1 5	450,000	Dec 07	4	4,500–13,000
Total	141,000	8 4	1,120,000		19	

Two additional sites were acquired during the year, in Tyseley, Birmingham and Torrington Avenue, Coventry

In September 2006 we acquired a strategic 20 acre site in the established Tyseley industrial area, three miles south east of Birmingham City Centre for £8 9m Outline planning consent for 360,000 sq ft of industrial/warehouse space has recently been approved and demolition of the existing buildings commenced

We also acquired 9 acres of prime development land at Torrington Avenue, Coventry in November 2006 for £4 8m The site has potential for a number of commercial uses

Asset Management
Proactive property asset management remains a fundamental key to the Group's present and future strategy As a result of our robust approach to this management aspect we have driven additional value in terms of both rental and capital growth The portfolio continues to perform well and our customer facing approach has resulted in a high occupancy rate of our buildings, reflecting a 94% occupancy level Lease renewals and additional rent from reviews accounted for an increase in income of 2 7% (£0 4m)

During the year we obtained outline planning consent for a 500,000 sq ft mixed use scheme on the site of our existing Bull Ring Trading Estate, as mentioned at the interim stage

Our investment portfolio was valued by DTZ Debenham Tie Leung as at 30 June 2007 The properties were valued at £288 3m, to show an increase of £16 5m (6%) over closing book value The planning enhancement for Bull Ring Trading Estate added £3 9m, the remainder of the gain was spread across the portfolio, mainly reflecting improvements in rent and occupancy levels

The net equivalent yield on our investment portfolio, excluding development land, was 6 0% at the year end Industrial property was valued on a yield of 6 1%, offices on 6 2% and retail on 5 2% The average rent for the Midland industrial properties was £4 53 per square foot (psf), offices £14 05 psf and retail £8 68 psf The estimated rental value for the portfolio is currently £1 9m higher than the passing rent

Property and Financial Review

Trading properties

We disposed of half of our trading properties by value during the year, ahead of converting to a REIT Residential land in Wigan, Lancashire and Tipton, West Midlands was sold for a profit of £10 2m The proceeds have been reinvested into our commercial development programme, where we can add capital value and create rental income

DTZ Debenham Tie Leung valued our remaining trading properties as at 30 June 2007 The value was £10 0m Since the year end, we have realised £2 6m from the disposal of residential land

Financial performance

Rental income from investment properties remained unchanged at £14 3m, with rental income from properties disposed being offset by investment acquisitions, completed developments and asset management As mentioned above, we have disposed of a significant amount of our trading properties, increasing the net income from trading properties from £2 3m to £10 2m

Administration expenses are significantly higher than the previous year, mainly due to the professional fees incurred for REIT conversion and the termination of Peter Petherbridge's directorship

Profits on the disposal of investment properties were also higher, at £2 2m compared to £0 7m in 2006 As mentioned above, this relates to the disposal of our Wates Way Trading Estate

Net gains on the revaluation of the investment and developments of £16 3m (2006 £23 7m) were reflected in the income statement

Our financing costs reflect the redemption of £11 7m of our 11 5% First Mortgage Debenture Stock 2014, at a cost of £16 6m, leading to a premium of £4 9m After tax relief the net cost of redemption is £3 5m This redemption was funded out of our existing banking facilities To increase our availability of financial resources we have taken out a further £20m revolving credit facility with HSBC Bank plc, of which £14m was utilised at 30 June 2007

Interest costs of £0 5m (2006 £nil) have been capitalised to development properties, reducing the interest charge to the income statement

We intend to seek approval from Shareholders for the Board to issue new Ordinary shares Further details are included in the circular to shareholders to be released shortly The Board only intends to raise funds from a share issue where it would increase net asset value per share

Profit before tax reduced from £36 4m to £33 4m, reflecting the above

A tax credit of £18 6m (2006 charge £9 3m) has been recognised in the income statement, which is broken down as follows

TAX (CREDIT)/CHARGE IN THE INCOME STATEMENT

		2007 £000	2006 £000
Current tax	— on income profits	**4,154**	2,998
	— on property disposals	**2,340**	621
		6,494	3,619
Current tax	— REIT conversion charge	**5,736**	—
Total current tax		**12,230**	3,619
Deferred tax	— charge for year	**579**	5,671
	— released on REIT conversion	**(31,409)**	—
		(30,830)	5,671
Total tax (credit)/charge		**(18,600)**	9,290

Property and Financial Review

ANALYSIS OF BORROWINGS AT 30 JUNE

	2007 £000	2006 £000
11 5% First Mortgage Debenture Stock 2014	**4,203**	15,903
Preference Share Capital	**675**	675
Cash and Short-Term Deposits	**(1,252)**	(9,767)
Borrowings from revolving credit facility	**14,000**	—
Net Debt and Preference Share Capital	**17,626**	6,811
Net Assets	**259,292**	215 672
Gearing (net of cash)	**7%**	3%

We have stated our net asset value and earnings per share figures on an EPRA basis for the first time This has been done to adopt the market definition for these numbers

For net asset value this has resulted in us taking into account the fair value adjustment of our debenture stock, reducing net asset value by 2p per share in 2007 and 10p in 2006

We have included three earnings per share (eps) figures in the report and accounts the income statement (unadjusted) eps, EPRA eps, and adjusted eps The adjusted eps is the EPRA eps after removing the effect of the redemption of the debenture stock The Board considers that the adjusted eps is a good benchmark for the underlying performance of the Group

Calculations for net asset value and earnings per share are shown in note 9 to the accounts

Outlook

The Group has had an excellent year in terms of both financial performance and the repositioning of the business in readiness for its entry in to the REIT structure Our quality investment portfolio and strong financial position provide the perfect platform from which to grow the business through our main initiatives of selective investment, controlled development and proactive asset management

This strategy soundly supports the Group's main objective of providing Shareholders with long-term stability whilst seeking to maximise growth in earnings, dividends and net asset value

We are confident with our approach and feel extremely positive about the future

Justin Parker
Managing Director
28 September 2007

Property Investment Portfolio

SUMMARY OF INVESTMENT PORTFOLIO AS AT 30 JUNE 2007

	Let Space sq ft	Vacant Space sq ft	Total sq ft
Industrial	2,264,605	161,578	2,426,183
Office	169,596	11,859	181,455
Retail	171,540	—	171,540
	2,605,741	173,437	2,779,178

CURRENT AND ESTIMATED RENTAL VALUE (ERV — REVERSIONS AND VOID LETTINGS)

	Current rent £m pa	ERV £m pa	Capital value £m
Industrial	11 00	12 45	185 25
Office	2 55	2 83	41 84
Retail	1 49	1 62	27 74
	15 04	16 90	254 83
Land/Development			33 43
			288 26

AVERAGE RENT PER SQ FT (PSF)

	Current rent £psf	ERV £psf	Upside %
Industrial	4 53	5 13	+13 2
Office	14 05	15 60	+11 0
Retail	8 68	9 44	+8 7
	5 41	6 08	+12 4

AVERAGE INCOME RETURNS FROM INVESTMENT PROPERTIES (NET)

	Initial Yield %	Reversion Yield %	Equivalent Yield %
Industrial	5 6	6 4	6 1
Office	5 8	6 4	6 2
Retail	5 1	5 5	5 2
	5 6	6 3	6 0

Principal properties at 30 June 2007

	Area sq ft
Industrial	
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	232,898
Crompton Fields, Crawley, West Sussex	160,551
Enterprise Trading Estate, Dudley	175,813
Forge Trading Estate, Halesowen	77,102
Forward Park Trading Estate, Birmingham	54,872
Golden Cross, Aston, Birmingham	76,722
Hazelwell Mills Trading Estate, Stirchley	96,189
Kings Hill Business Park, Wednesbury	124,420
Knightsbridge Park, Worcester	48,145
Long Acre Trading Estate, Birmingham	62,392
Mucklow Hill Trading Estate, Halesowen	97,265
Redfern Industrial Park, Tyseley, Birmingham	41,499
Roman Park, Coleshill	84,916
Shenstone Trading Estate, Halesowen	168,621
St Andrews Trading Estate, Birmingham	29,705
Star Gate, Birmingham	87,314
Stratton Business Park, Biggleswade, Bedfordshire	34,359
Tachbrook Link, Leamington Spa	85,312
Tewkesbury Road, Cheltenham	59,021
Triton Park, Rugby	77,698
Wednesbury One, Wednesbury	132,439
Offices	
Apex House, Apex 6 Business Park, Worcester	18,606
Century House, Apex 6 Business Park, Worcester	23,061
Concorde House, Trinity Park, Solihull	24,125
Dukes Gate, Chiswick, London	17,855
Mucklow Office Park, Mucklow Hill, Halesowen	34,703
Oak Tree Court, Binley Business Park, Coventry	30,000
309 Reading Road, Henley-on-Thames, Oxon	12,121
60 Whitehall Road, Halesowen	21,233
Retail	
Birchley Island, Oldbury	56,181
131/148 High Street, Bordesley	12,000
202–208 High Street, Harborne	24,681
64/67 High Street, Stourbridge	33,482
Prospect Way, Halesowen	32,000
Tewkesbury Road, Cheltenham	12,196

Directors and Officers

Directors

Rupert J Mucklow BSc
Chairman‡ Aged 44

Joined the Group in 1990 Appointed executive director 1995, Managing Director 1996, Deputy Chairman 2001 and Executive Chairman 2004

D Justin Parker BSc MRICS
Managing Director Aged 42

Joined the Group as Managing Director in January 2004 Previously National Head of Investment at DTZ Debenham Tie Leung

David Wooldridge FCCA ACIS
Finance Director Aged 35

Joined the Group in 1996 Appointed Company Secretary in 2002 and Finance Director on 1 July 2007

David F Austin FRICS
Senior Independent Non-Executive†‡* Aged 68

Appointed to the Board 1995 A chartered surveyor and former joint senior partner of Bucknall Austin Chairman of the Audit and Remuneration Committees

David C Groom FCIB
Independent Non-Executive†‡* Aged 68

Appointed to the Board 1996 A former regional area manager of Midland Bank in Birmingham

Paul A Ludlow FRICS
*Independent Non-Executive *†‡* Aged 61

Appointed to the Board in 2007 A former Managing Director of Severn Trent Property Ltd until the recent sale of the business to Prologis

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

Honorary President
Albert J Mucklow ACIS

Company Secretary
David Wooldridge FCCA ACIS

Senior Management and Professional Advisers

Senior Management

Jesse S J Stokes MRICS
Development

M David Folkes MCIOB
Residential Land/Development

David Rampling
Estate Management/Property Leasing

David J Tuft
Property Manager

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Directors' Report

The directors present their annual report and audited accounts for the year ended 30 June 2007

Principal activities

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

Results

The profit earned and the dividends paid and proposed are set out in detail in the consolidated income statement and notes The net profit before taxation for the year was £33 4m and the taxation credit was £18 6m

Review of business

Details of the Group's activities and a review of the business are set out in the Chairman's Statement and Property and Financial Review on pages 2 to 10

Details of the Key Performance Indicators regarding the revaluation surpluses, rental income on the retained portfolio and vacant space, used by the directors to assist in the management of the business and to provide evidence of the achievement of its strategies, are included in the property review section of the Chairman's Statement, the asset management and trading properties sections of the Property and Financial Review and in the table below

Key Performance Indicators

	2007	2006
Revaluation surplus		
— Income statement (£000s)	**16,322**	23,739
— Statement of recognised income and expense (£000s)	**167**	4,415
Rental income on the retained portfolio (£000s)	**14,031**	13,659
Vacant space (%)	**6**	7

Key risk areas for the Group

Risk area	**Mitigation**
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 ■ Continual focus on current vacancies and expected changes

Risk area	Mitigation
Development	
■ Speculative development exposure on lettings ■ Cost/time delays on contracts ■ Inability to acquire land ■ Holding too much development land	■ Limiting 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 consider all development land acquisitions to ensure exposure is limited to reasonable levels and that prices paid are realistic
Financial	
■ Reduced availability or increased cost of debt finance ■ REIT compliance	■ Low gearing policy ■ Large, unencumbered property portfolio available as security ■ Existing facilities sufficient for spending commitments ■ Internal procedures in place to track compliance
People	
■ Retention/recruitment	■ Key man insurance ■ Remuneration structure reviewed ■ Regular assessment of performance

Ordinary dividends

On 29 June 2007, an interim dividend of 6 69p per share was paid A final dividend of 8 04p per share is proposed The total dividend for the year will be 14 73p per share

The final dividend, if confirmed, will be paid on 31 December 2007 to shareholders on the register at the close of business on 30 November 2007

Employee share ownership scheme

On 25 October 2002 the Company adopted the A & J Mucklow Group plc Share Incentive Plan This is an Inland Revenue approved share scheme, under which all employees of the Group with a minimum period of service of 6 months prior to the start of an accumulation period are eligible to participate The Inland Revenue allows monthly employee contributions of £125 (or 10% of salary if lower) Under the scheme an

Directors' Report

employee can buy Partnership shares from their monthly pre-tax salary up to an initial maximum of the lower of £125 or 3% of salary The Company has agreed to match each share purchased by the employee on the basis of one for one An allocation of free shares can also be made under the scheme up to a limit of £3,000 per employee The amount, if any, of free shares allocated will be decided upon annually by the Remuneration Committee

The first annual accumulation period began on 29 November 2002 During the year 13,408 (2006 16,025) Ordinary shares were purchased, including 5,962 (2006 6,755) free shares, at a cost to the Group of £52,432 (2006 £50,610) The allocation of shares was not subject to performance criteria

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

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 average number of creditor days for the Group was 10 (2006 37) The average number of creditor days for the Company was 2 In 2006 the Company had no trade creditors The creditor days figure is significantly affected by property acquisitions and similar transactions

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

Business activities
The Group's principal activity is to develop and invest in commercial and industrial properties in prominent locations, with a bias towards the Midlands Our main objective is the long-term enhancement of shareholder value through dividend and capital appreciation

Group structure
A & J Mucklow Group plc has seven main subsidiaries for property development and investment

All of the Group s properties are wholly owned

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

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

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

During the year, third party consultants were appointed to carry out environmental reviews of our industrial portfolio The process is ongoing and it is intended to be extended over the whole portfolio

We are also improving the environmental performance of our development properties At Wednesbury One, BREEAM (Building Research Establishment Environmental Assessment Method) is being used to assess the impact of the scheme, with the aim of securing a 'Very Good' rating as a minimum It is intended that the experience gained during the project at Wednesbury One will be used to improve the environmental performance of other schemes within the portfolio, which will also be assessed using BREEAM

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

Head office and administration

The Group moved head offices in 2006 and a health and safety review was carried out

We have introduced procedures to reduce the waste produced by the Group, including incentives for company car drivers to move to more CO_2 efficient vehicles and reducing the volume of paper used

Review and responsibility

The Social and Environmental policy, which applies to all companies in the Group, will be reviewed annually as part of the Group's Turnbull Committee meetings Rupert Mucklow 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

Donations

No political contributions were made during the year and donations to charities amounted to £2,150 (2006 £2,863)

Directors

The present Board is as shown on page 14 Paul Ludlow was appointed as a director on 1 March 2007 and David Wooldridge was appointed on 1 July 2007

David Wooldridge (Finance Director), David Austin (non-executive director) and Paul Ludlow (non-executive director) retire by rotation and, being eligible, offer themselves for re-election

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

Directors' Report

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 shown below

There were no other movements in any of the directors' shareholdings between 1 July 2007 and 4 September 2007

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stock at either 30 June 2007 or 4 September 2007

Substantial shareholdings

The families of Albert J Mucklow (Honorary President, previous Chairman and father of the Chairman), Allan J Mucklow (retired non-executive director and uncle of the Chairman) and Margaret A Hickman (aunt of the Chairman) collectively have an interest in 21,781,990 (2006 24,773,891) Ordinary shares representing 36 31% (2006 41 30%) of the issued Ordinary Share Capital

In addition to those noted above the Company has been notified of the following interests in more than 3% of its issued Share Capital as at 12 September 2007

	Ordinary shares	
Directors' shareholdings	**at 30 June 2007**	at 30 June 2006 or appointment if later
Rupert J Mucklow	**724,593**	808,103
Justin Parker	**3,810**	2,531
Peter M Petherbridge	**23,994**	22,713
David F Austin	**9,330**	9,330
David C Groom	**15,000**	10,000
Paul A Ludlow	—	—

Substantial shareholdings	**Number**	**%**
Barclays PLC*	9,114,165	15 19
Tellin (Bermuda) Limited	3,831,530	6 39
Wesleyan Assurance Society	3,020,000	5 03
AXA Framlington	2,310,000	3 85
NFU Mutual Insurance Society Ltd	2,174,248	3 62
Standard Life Investments	2,068,603	3 45

* Including 6,998,640 shares included in the Concert Party holding referred to above

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

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

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 2007

This revaluation has been incorporated in the accounts, resulting in an increase of £16 5m in reserves Of this amount, £16 3m has been recognised in the income statement, with the balance going through the statement of recognised income and expense

Financial instruments
Details of the use by the Company and its subsidiaries can be found in note 25 to the accounts

Disclosure of information to auditors
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 auditors are 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 auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

Auditors
A resolution to reappoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting

By order of the Board

David Wooldridge

David Wooldridge
Secretary

60 Whitehall Road, Halesowen
West Midlands, B63 3JS
28 September 2007

Statement of Corporate Governance

FRC Combined Code

The Company has complied with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance throughout the year ended 30 June 2007, except as disclosed below

The Company has applied the principles set out in Section 1 of 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 executive directors have not received a significant proportion of their salary as performance related bonuses, as suggested by code provision B 1 1 The Remuneration Committee has considered this and proposes that a new Long Term Incentive Plan is introduced for executive directors that will, subject to performance conditions being met, enable the executive directors to earn a significant proportion of their total remuneration based on performance Although Rupert Mucklow is an executive director, as Chairman he will not participate in the proposed plan Further details are included below and in the Board Report on Directors' Remuneration and the circular to shareholders being sent out with this annual report

The Board

The Board comprised three executive directors Rupert J Mucklow (Chairman), Justin Parker (Managing Director) and Peter M Petherbridge, and two non-executive directors David Austin (Senior Independent Non-Executive) and David Groom Following the appointment of Paul Ludlow as a non-executive director on 1 March 2007, Peter Petherbridge's termination on 30 June 2007 and David Wooldridge's appointment as Finance Director on 1 July 2007, the Board now comprises three executive and three non-executive directors

On 4 September 2007 the Board announced that David Groom (68) will not seek re-election at this years' Annual General Meeting and will retire from the Board on 31 October 2007

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 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

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, David Austin, David Groom and Paul Ludlow are considered to be independent for the reasons stated below

David Austin was appointed a non-executive director in 1995, and has therefore been on the Board for more than nine years, a factor suggested by the Code as a potential indicator of a lack of independence The Board considers that David Austin is fully independent of the Group and he remains the Senior Independent Non-Executive Director Mr Austin has confirmed in writing that there are no matters which, if considered, would impair his independence The Board also considers that Mr Austin brings extensive knowledge and experience of property matters to the Group

David Groom was appointed a non-executive director in 1996, and has therefore been on the Board for more than nine years, a factor suggested by the Code as a potential indicator of a lack of independence The Board considered that David Groom was fully independent of the Group and he remains an independent non-executive director until his resignation on 31 October 2007 Mr Groom has confirmed in writing that there are no matters which, if considered, would impair his independence The Board also considers that Mr Groom brings extensive knowledge and experience of finance matters to the Group

Paul Ludlow was appointed as a non-executive director on 1 March 2007 The Board has considered Mr Ludlow's position and the fact that he has had no previous involvement with the Group and confirms that he is independent

The executive directors have not received, but are potentially able to receive, a significant proportion of their salary based on performance and are further paid modestly in relation to comparable companies within the sector Rupert Mucklow (Chairman) and Justin Parker (Managing Director) are eligible for an annual cash bonus of up to 50% of annual basic salary Justin Parker was also eligible for a Long-Term Incentive Plan which could pay out up to 50% of his annual basic salary

The first three-year performance measurement period has now expired No award has been made under this scheme and no future awards are to be made Full details of the schemes are included in the Board Report on Directors' Remuneration The Remuneration Committee has considered the remuneration of the executive directors, and appointed Deloitte & Touche LLP to give advice and recommendations on Long-Term Incentives As a result of this review, the Board is proposing to introduce a new Long-Term Incentive Plan for the executive directors (excluding the Chairman) A circular confirming the details of the proposed share-based scheme is being sent to Shareholders with this annual report Further details are included in the Board Report on Directors' Remuneration Deloitte & Touche LLP are the Group's auditors and tax advisers Deloitte & Touche LLP were paid £23,700 for services to the Remuneration Committee in the year ended 30 June 2007

The Board agreed to introduce annual performance appraisals in 2004 and the first appraisal was held in August 2005 The Board as a whole considered its performance and the performance of its subcommittees

The Chairman carried out the review of the non-executive directors, the non-executives reviewed the Chairman, and the Chairman and non-executives reviewed the remaining executive directors The questions set out in the Higgs guidance were considered, where relevant to the Group The conclusion of this review was that the Board and its committees continue to operate effectively

All directors are required to submit themselves for re-election every three years

David Wooldridge, David Austin and Paul Ludlow are seeking re-election as directors at the 2007 Annual General Meeting

David Wooldridge FCCA ACIS (35), Finance Director, was appointed to the Board on 1 July 2007 Mr Wooldridge was appointed as Company Secretary in 2002

David Austin (68), Senior Independent Non-Executive Director, was appointed to the Board in 1995 Mr Austin is a chartered surveyor and former joint senior partner of Bucknall Austin He acts as chairman of the Audit and Remuneration Committees The Chairman confirms that, following a full performance appraisal, David Austin continues to be effective and demonstrates commitment to his role

Paul Ludlow (61) was appointed as a non-executive director on 1 March 2007, having previously been Managing Director of Severn Trent Property Limited for 18 years, until its sale to ProLogis

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

The attendance of the directors at scheduled Board meetings during the year ended 30 June 2007 is as follows

Statement of Corporate Governance

	Board	Audit	Remuneration	Nomination
Number held	12	4	1	2
Rupert J Mucklow	12	n/a	n/a	2
Justin Parker	12	n/a	n/a	n/a
Peter M Petherbridge	12	n/a	n/a	n/a
David F Austin	11	4	1	2
David C Groom	12	4	1	2
Paul Ludlow*	4	3	1	1

n/a indicates not a member of that committee

* Paul Ludlow was appointed as a director on 1 March 2007

Board Committees
The Board has three subcommittees, the Audit Committee, the Remuneration Committee and the Nomination Committee David Austin (Senior Independent Non-Executive Director) acts as Chairman for the Audit and Remuneration Committees Rupert J 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
The Audit Committee comprised David Austin FRICS (Senior Independent Non-Executive) and David Groom FCIB until 28 February 2007 From 1 March 2007 the Committee comprises David Austin, David Groom and Paul Ludlow FRICS

The Audit Committee meets regularly

- 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 monitor and review the effectiveness of the Company's internal controls,
- 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

The whole Board reviews internals controls at Turnbull Committee meetings

Representatives of Deloitte & Touche LLP, the Company's auditors, and senior management may attend the Audit Committee meetings at the invitation of the Committee

David Groom FCIB is considered to have relevant financial experience

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

Since the start of the financial year, the Audit Committee has

- Reviewed the preliminary announcement and the interim report As part of these reviews the Committee received a report from the external auditors on their audit of the annual report and accounts and review of the interim report,
- Reviewed and agreed the scope of the audit work to be undertaken by the auditors,
- Agreed the fees to be paid to the external auditors,
- Reviewed the need for an internal audit, and
- Reviewed the appointment of the external auditors as auditors and tax advisers

Remuneration Committee

The Remuneration Committee comprised David Austin (Senior Independent Non-Executive) and David Groom until 28 February 2007 From 1 March 2007, the Committee comprises David Austin, David Groom and Paul Ludlow

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 Report of the Board to the shareholders on Directors' Remuneration is set out on pages 28 to 31

Nomination Committee

The Nomination Committee comprised Rupert J Mucklow (Group Chairman), David Austin (Senior Independent Non-Executive) and David Groom until 28 February 2007 From 1 March 2007 the Committee comprised Rupert J Mucklow, David Austin, David Groom and Paul Ludlow

The Committee will normally hold meetings when requested by the Chairman of the Committee

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

For the appointment of Paul Ludlow as a new Non-Executive Director, the Nomination Committee agreed the required skills and background of a suitable candidate with the Board The Board then sought soundings and recommendations from a number of Midlands property professionals The Board considers that this process identified a number of suitable candidates who were independent of the Group As a result, it was not considered necessary to appoint external search agents or to use open advertising

In June 2007, the Board approved the Nomination Committee's recommendation to appoint David Wooldridge as Finance Director with effect from 1 July 2007

Statement of Corporate Governance

Shareholders

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

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

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

The Chairman regularly updates the Board with the views of shareholders and analysts

Internal control

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

The Board has previously introduced 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 accounts 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 comprehensive financial reporting and forecasting system,
- defined schedule of matters reserved for the Board,
- twice yearly internal controls meetings of the Board, to discuss the effectiveness of internal controls and formally consider business risks Issues are also raised at monthly Board meetings as appropriate

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

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 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 six 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 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 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

Going concern

The directors have a reasonable expectation 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

Board Report on Directors' Remuneration

Introduction

The Directors' Remuneration Report Regulations 2002 (the "regulations") introduced new disclosure requirements for directors' remuneration This report has been prepared in accordance with those regulations and a resolution will be proposed at the forthcoming Annual General Meeting to consider and approve this report

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 1985 as amended by the regulations The table of directors' emoluments in this report is audited as part of this report The remaining information within this report is unaudited

Remuneration Committee

The Remuneration Committee consisted of two non-executive directors until 28 February 2007 myself as Chairman and David Groom On 1 March 2007 Paul Ludlow was appointed as a non-executive director and became a member of the Committee The Committee now consists of myself as Chairman, David Groom and Paul Ludlow 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 which constitutes part of this Report

The remuneration of the non-executive directors is determined by the Board of directors, without the participation of the non-executive directors Non-executive directors do not receive any pension or share scheme benefits from the Group

The Committee consults the Group Chairman and Managing Director 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

The remuneration of the executive directors does not currently have a significant performance related element Rupert J Mucklow (Chairman) and Justin Parker (Managing Director) are eligible for an annual cash bonus of up to 50% of annual basic salary Justin Parker is also eligible for a Long-Term Incentive Plan which could pay out up to 50% of his annual basic salary The first three-year performance measurement period has now expired No award has been made under this scheme and no future awards are to be made under this scheme Full details of the schemes are included below

The Remuneration Committee has considered this area of non-compliance and has resolved that Rupert J Mucklow and Justin Parker should be eligible for an annual cash bonus Having considered comparator company evidence, the Committee decided that the maximum bonus payable should be limited to 50% of annual basic salary The bonus will be non-pensionable The Remuneration Committee will have discretion over the level of bonus paid, and will consider the following factors when assessing the amount to be paid

- Financial performance in the year
- Individual performance in the year
- Strategic decisions taken for the long term, which affect profits and/or net assets in the short term
- Total shareholder return
- The overall remuneration of the individual

The Remuneration Committee has also introduced a long-term incentive plan It resolved that, for Justin Parker only, a rolling three-year long-term incentive plan should be introduced, which compares the Company's total shareholder return (share price plus dividends reinvested) against other quoted real estate companies

The maximum award, payable in cash, receivable by Mr Parker will be based on 50% of his annual basic salary at the start of each three-year period No award will be given if the Company's total return over the three year period is below the FTSE Real Estate Index

The award will be given on a sliding scale as follows

Criterion	Scale of award
In the top 30% of quoted real estate companies	10%
In the top 25% of quoted real estate companies	25%
In the top 20% of quoted real estate companies	50%
In the top 15% of quoted real estate companies	75%
In the top 10% of quoted real estate companies	100%

The Remuneration Committee considered the remuneration policies of other listed real estate companies at the time Justin Parker was appointed to the Group and they considered that the measurement of the Group's performance against the FTSE Real Estate Price Index provides a good benchmark for total shareholder return against similar quoted companies The Remuneration Committee will use third-party information providers to measure whether any award is payable to Mr Parker

The first three-year period began on 1 January 2004, and new three-year measurement periods will commence annually on 1 January No awards have been made under the plan and no future awards will be made

Justin Parker was recruited by the Group on the basis that performance related pay would form a part of his total remuneration

The Remuneration Committee has considered the remuneration arrangements of the executive directors and has proposed that a new Long Term Incentive Plan be introduced for executive directors (excluding the Chairman) and senior management at the Remuneration Committee's discretion Shareholders will be asked to vote on the scheme at this year's Annual General Meeting

The A & J Mucklow Group plc 2007 Performance Share Plan ("the plan") will consist of annual awards in the form of nil-priced options worth up to a maximum of 75% of annual base salary

The vesting of awards will be subject to stretching performance conditions such that full vesting of the awards under the plan would require top decile total shareholder return performance compared to the FTSE All Share Real Estate Sector For median total shareholder return performance compared to the FTSE All Share Real Estate Sector 20% of the award will vest (i e an award of 15% of annual base salary) For below median performance, the award will lapse

For Justin Parker only, a transitional arrrangement is proposed, as he will not be entitled to awards under the old scheme in 2008, 2009, 2010 or future years An award of 75% of salary which will vest after 18 months, subject to the satisfaction of performance conditions, is therefore intended

Further details are included in the circular to Shareholders

The Remuneration Committee considers that the annual bonus, in conjunction with proposed long-term incentive plan, will align the interests of the executive directors with shareholders generally Our aim is to only provide exceptional salaries for exceptional performance

Executive directors' remuneration

The main components of the executive directors' remuneration are

1 salary which is reviewed on an individual basis each year,

2 in respect of Rupert J Mucklow and Justin Parker, an annual cash bonus,

Board Report on Directors' Remuneration

3 benefits in kind which relate principally to the provision of a company car*,

4 in respect of Rupert J Mucklow, Justin Parker and Peter M Petherbridge, pension contributions,

5 an all employee, Inland Revenue approved, share incentive plan Further details of the scheme are given in the Directors' Report

* Peter M Petherbridge receives a cash alternative to a company car For the year ended 30 June 2007 this amounted to £9,178

Peter M Petherbridge receives a contribution towards his own personal pension plan

Benefits in kind are not pensionable

A detailed audited summary of the directors' emoluments is given below

Directors' emoluments (audited)	Basic Salary £000	Bonus £000	Termination payment £000	Fees £000	Benefits in kind £000	Pension £000	Share scheme £000	Total 2007 £000	2006 £000
Executive									
Rupert J Mucklow	231	25	—	—	24	22	5	**307**	299
Justin Parker	197	45	—	—	27	22	5	**296**	277
Peter M Petherbridge	169	—	200	—	5	22	5	**401**	192
Non-executive									
David F Austin	—	—	—	24	—	—	—	**24**	24
David C Groom	—	—	—	21	—	—	—	**21**	20
Paul A Ludlow	—	—	—	7	—	—	—	**7**	—
	597	70	200	52	56	66	15	**1,056**	812

Notes

i) There were performance related bonus payments

ii) Benefits in kind principally relate to the provision of a company car and fuel benefits

iii) Rupert J Mucklow and Justin Parker are members of a defined contribution pension scheme Peter M Petherbridge has his own pension scheme to which the Group contributes

iv) The Group currently operates an Inland Revenue approved all employee Share Incentive Plan Further details are given in the Directors' Report on page 16 During the year Rupert J Mucklow and Peter Petherbridge each received 1,281 Ordinary shares, with a value of £6,545, and Justin Parker received 1,279 Ordinary shares with a value of £6,536 at a cost to each director of £1,500 (excluding tax relief) Non-executive directors were not eligible for the schemes

v) Peter M Petherbridge is the sole proprietor of P M Petherbridge & Co employing his own staff and renting space at the Group's head office For the year ended 30 June 2007 P M Petherbridge & Co received £24,003 in respect of administration fees recharged, net of rent payable to the Group (2006 £23,144)

At 30 June 2007 P M Petherbridge & Co were holding £Nil relating to deposits (2006 £Nil)

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

Total shareholder return

The graph below shows the total return of the Company's shares compared to the FTSE 350 Real Estate price index, which has been selected as the most relevant index for quoted real estate companies

Service contracts

The three executive directors, Rupert J Mucklow, Justin Parker and David Wooldridge, have service contracts which have a one-year rolling term The contracts are dated 1 July 1997 in respect of Rupert J Mucklow, 3 October 2003 in respect of Justin Parker and 12 September 2007 in respect of David Wooldridge Peter Petherbridge had a service contract with a one-year rolling term dated 10 July 2001 Non-executive directors do not have service contracts

Executive directors' contracts provide for termination payments equal to salary and the value of other benefits for the period remaining under the contract

Pensions

Pension contributions are made by the Group into existing defined contribution personal pension schemes on behalf of Rupert J Mucklow, Justin Parker and David Wooldridge Peter M Petherbridge received contributions to his defined contribution pension scheme during the year No Group company pension scheme is operated for the other directors

Details of directors' share interests are given in the Directors' Report

As Chairman of the Committee, I intend to be available at the Annual General Meeting to answer questions on any aspect of the remuneration policy

Approved by and signed for and
on behalf of the Board

D. F. Austin

David F Austin
Senior Independent Non-Executive Director
28 September 2007

Independent Auditors' Report

To the Members of A & J Mucklow Group plc
We have audited the Consolidated and Parent Company financial statements (the "financial statements") of A & J Mucklow Group plc for the year ended 30 June 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Recognised Income and Expense, the Consolidated and Parent Company Cash Flow Statements, and the related notes 1 to 31 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Property and Financial Review that is cross-referred from the Review of Business section of the Directors' Report

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services 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 as described in the contents section 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 Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited 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 Group's and Company's circumstances, 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2007 and of its profit for the year then ended,
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 30 June 2007,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 June 2007 and of its profit for the year then ended

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Birmingham, United Kingdom
28 September 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements The directors have chosen to prepare accounts for the Company and the Group in accordance with International Financial Reporting Standards (IFRSs) Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity s financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for the maintenance and integrity of the Company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions

Financial Statements

Contents

Consolidated Income Statement

for the year ended 30 June 2007

	Notes	2007 £000	2006 £000
Revenue	2	**24,965**	16,735
Gross rental income relating to investment properties	2	**14,285**	14,351
Property outgoings		**(748)**	(741)
Net rental income relating to investment properties		**13,537**	13,610
Proceeds on sale of trading properties	2	**10,680**	2,384
Carrying value of trading properties sold		**(518)**	(125)
Property outgoings relating to trading properties		**(4)**	(5)
Net income from trading properties		**10,158**	2,254
Administration expenses		**(2,996)**	(2,401)
Operating profit before net gain on investments		**20,699**	13,463
Profit on disposal of investment properties		**2,247**	707
Net gains on revaluation of investment and development properties		**16,322**	23,739
Operating profit	4	**39,268**	37,909
Finance income	6	**209**	561
Finance costs		**(1,159)**	(2,036)
Exceptional loss on redemption of debenture		**(4,949)**	—
Total finance costs	6	**(6,108)**	(2,036)
Profit before tax	4	**33,369**	36,434
Current tax		**(6,494)**	(3,619)
Current tax — REIT entry charge		**(5,736)**	—
Deferred tax charge		**(579)**	(5 671)
Deferred tax released on REIT conversion		**31,409**	—
Total tax credit/(charge)	7	**18,600**	(9,290)
Profit for the financial period		**51,969**	27,144
Basic and diluted earnings per share	9	**86 62p**	45 24p

All operations are continuing

Consolidated Balance Sheet

at 30 June 2007

	Notes	2007 £000	2006 £000
Non-current assets			
Investment and development properties	10	**286,768**	257,406
Property, plant and equipment	11	**1,726**	1,602
Trade and other receivables	12	**370**	366
		288,864	259,374
Current assets			
Trading properties	13	**921**	1,282
Held for sale assets	14	**—**	—
Trade and other receivables	15	**4,306**	2,685
Cash and cash equivalents		**1,252**	11,065
		6,479	15,032
Total assets		**295,343**	274 406
Current liabilities			
Trade and other payables	17	**(7,745)**	(8,037)
Borrowings	18	**—**	(1,298)
Tax liabilities		**(9,295)**	(1,873)
		(17,040)	(11,208)
Non-current liabilities			
Borrowings	19	**(18,878)**	(16,578)
Deferred tax	20	**(133)**	(30 948)
		(19,011)	(47,526)
Total liabilities		**(36,051)**	(58,734)
Net assets		**259,292**	215,672
Equity			
Called up ordinary share capital	21	**14,998**	14,998
Revaluation reserve	22	**927**	3,424
Redemption reserve	23	**11,162**	11,162
Retained earnings	23	**232,205**	186,088
Total equity	24	**259,292**	215,672
Net assets per Ordinary share			
— Basic and diluted	9	**432p**	360p
— Adjusted	9	**445p**	431p

Rupert J Mucklow
David Wooldridge

Approved by the Board on 28 September 2007

The notes attached are an integral part of the accounts

Parent Company Balance Sheet

at 30 June 2007

	Notes	2007 £000	2006 £000
Non-current assets			
Investment and development properties	10	**2,050**	2,052
Investments	29	**19,833**	9,733
		21,883	11,785
Current assets			
Trade and other receivables	15	**109,623**	106,363
Corporation tax recoverable		**4,737**	2,219
Cash and cash equivalents		**8**	7,316
		114,368	115,898
Total assets		**136,251**	127 683
Current liabilities			
Trade and other payables	17	**(36,497)**	(59,292)
Non-current liabilities			
Borrowings	19	**(18,878)**	(16,578)
Deferred tax	20	**—**	(375)
		(18,878)	(16,953)
Total liabilities		**(55,375)**	(76,245)
Net assets		**80,876**	51,438
Equity			
Called up ordinary share capital	21	**14,998**	14,998
Redemption reserve	23	**11,162**	11,162
Retained earnings	23	**54,716**	25,278
Total equity	24	**80,876**	51,438

Rupert J Mucklow
David Wooldridge

Approved by the Board on 28 September 2007

Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2007

	2007 £000	2006 £000
Gain on revaluation of development and owner-occupied properties	**167**	4 415
Deferred tax liability on items taken to equity	**(34)**	(1,108)
Reversal of deferred tax on REIT conversion	**19**	—
Net gain recognised directly in equity	**152**	3,307
Profit for the year	**51,969**	27,144
Total recognised income and expense for the year	**52,121**	30,451

Parent Company Statement of Recognised Income and Expense

for the year ended 30 June 2007

	2007 £000	2006 £000
Gain on revaluation of development and owner-occupied properties	**—**	227
Deferred tax liability on items taken to equity	**—**	(67)
Net gain recognised directly in equity	**—**	160
Profit for the year	**37,939**	26,082
Total recognised income and expense for the year	**37,939**	26,242

Consolidated Cash Flow Statement

for the year ended 30 June 2007

	Notes	**2007 £000**	2006 £000
Cash flows from operating activities			
Operating profit		**39,268**	37,909
Adjustments for non-cash items			
— Unrealised net revaluation gains on investment and development properties		**(16,322)**	(23,739)
— Profit on disposal of investment properties		**(2,247)**	(707)
— Depreciation and other non-cash items		**35**	71
Other movements arising from operations			
— Decrease in trading properties		**361**	10
— Increase in receivables		**(1,608)**	(670)
— (Decrease)/increase in payables		**(268)**	644
Net cash generated from operations		**19,219**	13,518
Interest received		**192**	578
Interest paid		**(1,535)**	(1,863)
Premium on redemption of debenture stock		**(4,949)**	—
Preference dividends paid		**(47)**	(47)
Corporation tax paid		**(4,919)**	(3,008)
Net cash inflow from operating activities		**7,961**	9,178
Cash flows from investing activities			
Acquisition and property development		**(24,401)**	(13,006)
Sales of investment properties		**14,136**	11,643
Expenditure on property, plant and equipment		**(11)**	(689)
Net cash outflow from investing activities		**(10,276)**	(2,052)
Cash flows from financing activities			
Net decrease in borrowings		**2,301**	—
Equity dividends paid		**(8,501)**	(7,913)
Net cash outflow from financing activities		**(6,200)**	(7,913)
Net decrease in cash and cash equivalents		**(8,515)**	(787)
Cash and cash equivalents at 1 July		**9,767**	10,554
Cash and cash equivalents at 30 June	16	**1,252**	9,767

Parent Company Cash Flow Statement

for the year ended 30 June 2007

	2007 £000	2006 £000
Cash flows from operating activities		
Operating (loss)/profit	**(314)**	79
Adjustments for non-cash items		
— Unrealised revaluation losses/(gains) on investment properties	**56**	(41)
Other movements arising from operations		
— Increase in receivables	**(9,219)**	(66,672)
— (Decrease)/increase in payables	**(22,795)**	50,099
Net cash generated from operations	**(32,272)**	(16,535)
Interest received	**159**	497
Interest paid	**(1,027)**	(1,829)
Premium on redemption of debenture stock	**(4,949)**	—
Preference dividends paid	**(47)**	(47)
Corporation tax refunded	**—**	—
Corporation tax paid	**(4,918)**	(2,475)
Net cash outflow from operating activities	**(43,054)**	(20,389)
Cash flows from investing activities		
Expenditure on property, plant and equipment	**(54)**	(283)
Intercompany dividends	**42,000**	27,000
Net cash inflow from investing activities	**41,946**	26,717
Cash flows from financing activities		
Net decrease in borrowings	**2,301**	—
Equity dividends paid	**(8,501)**	(7,913)
Net cash outflow from financing activities	**(6,200)**	(7,913)
Net decrease in cash and cash equivalents	**(7,308)**	(1,585)
Cash and cash equivalents at 1 July	**7,316**	8,901
Cash and cash equivalents at 30 June	**8**	7,316
Cash and cash equivalents consists of		
Cash at bank	**—**	—
Short-term deposits	**8**	7,316
	8	7,316

Notes to the Accounts

1 Accounting policies

Basis of preparation of financial information

The 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 properties, development properties and owner-occupied properties and deferred tax thereon, with consistent accounting policies to the prior year

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

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

As permitted by Section 230 of the Companies Act 1985, the income statement of the Parent Company is not presented as part of these accounts The Parent Company's profit for the financial year after taxation amounted to £37 9m

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

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

IFRS 7	Financial instruments Disclosures, and the related amendment to IAS 1 on capital disclosures
IFRS 8	Operating Segments
IFRIC 4	Determining whether an Arrangement contains a lease
IFRIC 5	Rights to Interests Arising from Decommissioning Restoration and Environmental Rehabilitation Funds
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007

Revenue recognition

Rental income

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

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

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

Property operating expenses are expensed as incurred Service charges and other recoverables are credited against the related expense

Revenue and profits on sale of investment and trading properties

Revenue and profits on sale of investment properties and trading properties are taken into account on the completion of contracts The amount of profit recognised is the difference between sale proceeds and the carrying amount

Dividend 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 as and when it falls due

1 Accounting policies (continued)

Cost of properties

An amount equivalent to the total development outgoings, including interest, attributable to properties held for development is added to the cost of such properties A property is regarded as being in the course of development until Practical Completion

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

Valuation of properties

Investment properties are valued at the balance sheet date at open market 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 income statement Valuation surpluses reflected in retained earnings are not distributable until realised on sale

Properties under development, which were not previously classified as investment properties, are valued at open market value until practical completion, when they are transferred to investment properties Valuation surpluses and deficits attributable to properties under development are taken to revaluation reserve until completion, when they are transferred to retained earnings Where the valuation is below historic cost, the deficit is recognised in the income statement

Owner-occupied properties are valued at the balance sheet date at open market value Valuation changes in owner occupied property are taken to revaluation reserve

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

Critical accounting judgements and key sources of estimation uncertainty

Management have made judgements over the valuation of properties that has a significant effect on the amounts recognised in the financial statements Management have 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

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, 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 income statement to the extent of the decrease previously charged A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset

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

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

Depreciation

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

Government grants

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

Notes to the Accounts

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is provided in full on temporary differences that result in an obligation at the balance sheet date 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 of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements Deferred tax is provided on temporary differences arising from the revaluation of fixed assets Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement 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 substantially enacted by the balance sheet date

Tax is recognised in the income statement 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

Goodwill is reviewed annually for impairment Under the Group's previous policy, £134,728 of goodwill has been written off directly to reserves as a matter of accounting policy This would be credited to the income statement on disposal of the business to which it related

Group undertakings

Investments are included in the balance sheet at cost less any permanent diminution in value

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

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 income statement 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

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 profit or loss 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

	2007 £000	2006 £000
Total rental income from investment and development properties	**14,285**	14,351
Proceeds on sale of trading properties	**10,680**	2,384
	24,965	16,735
Finance income (note 6)	**209**	561
Total revenue	**25,174**	17,296

3 Segmental analysis — primary segments

	2007 £000	2006 £000
Investment and development properties		
— Net rental income	**13,537**	13,610
— Profit on disposal	**2,247**	707
— Gain on revaluation of investment properties	**16,754**	23,739
— Deficit on revaluation of development properties	**(432)**	—
	32,106	38 056
Trading properties		
— Proceeds on sales	**10,680**	2,384
— Carrying value on sales	**(518)**	(125)
— Property outgoings	**(4)**	(5)
	10,158	2,254
Administration expenses	**(2,996)**	(2,401)
Operating profit	**39,268**	37,909
Net financing costs — ordinary	**(950)**	(1,475)
— exceptional	**(4,949)**	—
Profit before tax	**33,369**	36,434
The property revaluation surplus has been recognised as follows		
Income statement		
— Investment properties	**16,754**	23 739
— Development properties	**(432)**	—
	16,322	23,739
Statement of recognised income and expense		
— Development and owner occupied properties	**167**	4,415
Total revaluation surplus for the period	**16,489**	28,154

Notes to the Accounts

3 Segmental analysis — primary segments (continued)

	2007 £000	2006 £000
Balance sheet — segment assets		
Investment and development properties		
— Segment assets	**290,735**	260,025
— Segment liabilities	**(6,373)**	(37,461)
	284,362	222,564
Trading properties		
— Segment assets	**921**	1,282
— Segment liabilities	**(1)**	—
	920	1,282
Other activities		
— Unallocated assets	**2,435**	2,034
— Unallocated liabilities	**(10,799)**	(3,397)
— Net borrowings	**(17,626)**	(6,811)
	(25,990)	(8,174)
Net assets	**259,292**	215,672
Capital expenditure		
Investment and development properties	**24,460**	12,778
Property, plant and equipment	**94**	952
	24,554	13,730
Depreciation		
Investment and development properties	**—**	—
Property, plant and equipment	**98**	71
	98	71

All operations and income are derived from the United Kingdom

4 Profit for the year

	2007 £000	2006 £000
Profit for the year has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	**98**	71
Profit on the sale of fixed assets	**(63)**	(5)
Net gain on revaluation of investment and development properties	**(16,322)**	(23 739)
Staff costs (see note 5)	**1,829**	1,563
Professional fees incurred for REIT conversion	**181**	—

The amount shown above for professional fees incurred for REIT conversion includes amounts payable to Deloitte & Touche LLP, which are also disclosed below

Auditors' remuneration — Deloitte & Touche LLP

	2007 £000	2006 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**36**	36
Fees payable to the Company's auditors and its associates for other services		
Audit of the Company s subsidiaries pursuant to legislation	**12**	12
Other services pursuant to legislation	**7**	3
	55	51
Tax services	**100**	65
All other services	**25**	5
	180	121

All of the above items are included in administration expenses

The fees paid to the Group's auditors in respect of other services primarily relate to corporate tax compliance work and corporate tax advice, VAT advice, and advice on the impact of International Financial Reporting Standards and becoming a REIT on the Group The level of fees paid to Deloitte & Touche LLP for non-audit services during the year has been reviewed by the Audit Committee, who are satisfied that there is no risk of the independence of the audit being compromised

The use of Deloitte & Touche LLP as tax advisers is considered to be appropriate given the complexity of the Group s tax affairs, which requires a detailed knowledge of the structure and history of the organisation

Notes to the Accounts

5 Staff costs (including directors)

	2007 Number	2006 Number
Staff numbers and costs		
The average number persons employed by the Group (including directors) during the year was as follows		
Management	**5**	5
Administration	**7**	7
Property	**5**	8
Total employees	**17**	20

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

	2007 £000	2006 £000
Wages and salaries	**1,285**	1,272
Termination payment	**235**	—
Social security costs	**168**	160
Pension costs	**141**	131
	1,829	1,563

Pension arrangements

The Group operates defined contribution plans for qualifying permanent staff with payments invested with the Standard Life Assurance Company Mr P M Petherbridge had his own pension plan to which the Group contributes

Pension contributions (including directors) paid in the year ended 30 June 2007 amounted to £141,019 (2006 £131 152)

6 Net financing costs

	2007 £000	2006 £000
Finance costs on		
Debenture stock	**1,068**	1 829
Preference share dividend	**47**	47
Capitalised interest	**(508)**	—
Other interest payable	**552**	160
Total finance costs — ordinary	**1,159**	2,036
Premium on redemption of debenture stock	**4,949**	—
Total finance costs	**6,108**	2,036
Finance income on		
Short-term deposits	**13**	22
Other interest receivable	**196**	539
Total finance income	**209**	561
Net finance costs	**5,899**	1,475

In December 2006 the Group redeemed £11 70m of its 11 5% First Mortgage Debenture Stock 2014 at a price of £141 81 per £100 of stock

The total cost of redemption was £16 65m leading to a premium on redemption of £4 95m This exceptional premium has reduced the tax charge for 2007 by £1 48m

7 Taxation

	2007 £000	2006 £000
Tax charge		
Current tax		
— Corporation tax charged at 30%	**4,154**	2,998
— Tax in respect of property disposals	**2,340**	621
	6,494	3,619
Current tax		
— REIT conversion charge	**5,736**	—
Total current tax	**12,230**	3,619
Deferred tax		
— Deferred tax on property revaluations	**922**	5,221
— Other deferred tax	**(166)**	173
— Prior year adjustment	**(177)**	277
— Release on conversion to REIT	**(31,409)**	—
Deferred tax (credit)/charge	**(30,830)**	5,671
Total tax recognised in the income statement	**(18,600)**	9 290
Tax recognised in equity		
Deferred tax	**15**	1 108

The charge for the year can be reconciled to the profit per the income statement as follows

	2007 £000	2006 £000
Profit on ordinary activities before tax	**33,369**	36,434
Profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2006 30%)	**10,010**	10,930
Effect of		
Indexation relief and tax base difference on investment properties	**(2,441)**	(1,767)
Capital allowances	**(629)**	(161)
Other deferred tax movements	**(264)**	(21)
REIT conversion charge	**5,736**	—
REIT conversion on deferred tax provisions	**(31,404)**	—
Expenses not deductible for tax purposes	**102**	32
Adjustments in respect of prior years	**290**	277
	(18,600)	9,290

The Group became a Real Estate Investment Trust (REIT) on 1 July 2007 Under the REIT regime properties which are developed and then sold within three years do not benefit from the tax exemption provided to a REIT No deferred tax has been provided in respect of this potential tax liability as the Group has no current plans to dispose of the development properties In the prior year the amount of deferred tax was provided in full The value of development properties at 30 June 2007 was £28 14m and if the tax exemption was lost the amount of tax payable on this value would be £0 02m

The Chancellor's budget announced proposed changes to the future rate of corporation tax to reduce the rate to 28% (2006 30%) This Finance Bill was approved by the House of Commons on 26 June 2007 and will therefore have an effect on future deferred tax balances and on future tax charges

Notes to the Accounts

8 Dividends

	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 30 June 2006 of 7 48p (2005 6 96p) per share	**4,487**	4,175
Interim dividend for the year ended 30 June 2007 of 6 69p (2006 6 23p) per share	**4,014**	3,738
	8,501	7,913

The directors propose a final dividend for the year ended 30 June 2007 of 8 04p (2006 7 48p) per Ordinary share, totalling £4,823 356

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 31 December 2007 to Shareholders on the register at the close of business on 30 November 2007

9 Profit, earnings per share and net asset value per share

Profit

The adjusted profit before tax has been amended from the profit before tax as follows

	2007 £000	2006 £000
Profit before tax	**33,369**	36 434
Premium on redemption of debenture stock	**4,949**	—
Profit on disposal of investment properties	**(2,247)**	(707)
Net gain on revaluation of investment and development properties	**(16,322)**	(23,739)
Adjusted profit before tax	**19,749**	11 988

Earnings per share

The basic and diluted earnings per share of 86 62p (2006 45 24p) has been calculated on the basis of the weighted average of 59,991,990 Ordinary shares and earnings of £51 97m (2006 £27 14m) The adjusted earnings per share has been amended from the basic and diluted earnings per share by the following

	2007 £000	2006 £000
Earnings	**51,969**	27,144
Profit on disposal of investment properties	**(2,247)**	(707)
Tax charged on profit on disposal of investment properties (note 7)	**2,340**	621
Net gain on revaluation of investment and development properties	**(16,322)**	(23,739)
REIT conversion charge	**5,736**	—
Deferred tax	**(30,830)**	5,671
EPRA adjusted earnings	**10,646**	8,990
Premium on redemption of debenture stock	**4,949**	—
Tax thereon at 30%	**(1,485)**	—
Adjusted earnings	**14,110**	8,990
EPRA diluted earnings per share	**17 75p**	14 99p
Adjusted (and adjusted diluted) earnings per share	**23 52p**	14 99p

9 Profit, earnings per share and net asset value per share (continued)

The Group presents an adjusted 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

Net asset value per share

The net asset value per share has been calculated on the basis of the number of equity shares in issue of 59,991,990 and net assets of £259 29m (2006 £215 67m) The adjusted net asset value per share has been calculated as follows

	2007 £000	2006 £000
Equity shareholders' funds	**259,292**	215 672
Valuation of land held as trading properties	**9,995**	18,947
Mark to market on debt	**(1,341)**	(5,470)
Book value of land held as trading properties	**(921)**	(1,282)
Deferred tax	**133**	30,948
	267,158	258,815
EPRA (adjusted) net asset value per share	**445p**	431p

10 Investment and development properties

(a) Group	**Freehold £000**	**Leasehold £000**	**Total £000**
At 1 July 2005	204,793	21 180	225,973
Acquisitions	7,859	—	7,859
Additions	3 814	1,105	4,919
Disposals	(3,150)	(7,790)	(10,940)
Transfer from owner-occupied property	1,980	—	1,980
Revaluation surplus	25,720	1,895	27,615
At 1 July 2006	241,016	16,390	257,406
Acquisitions	20,489	—	20 489
Additions	3,229	684	3,913
Capitalised interest	508	—	508
Disposals	(11,889)	—	(11 889)
Revaluation surplus	16,575	(234)	16,341
At 30 June 2007	269 928	16,840	286,768
Comprising			
Investment properties	241,792	16,840	258,632
Properties for or under redevelopment	28,136	—	28,136
	269,928	16,840	286,768
Properties held at valuation			
Cost	127,513	13,459	140 972
Valuation surplus	142,415	3,381	145,796
Valuation	269,928	16,840	286 768

Notes to the Accounts

10 Investment and development properties (continued)

Investment and development properties have been included at market value after having deducted an amount of £0 22m (2006 £0 22m) in respect of lease incentives and letting fees included in trade and other receivables

The properties are stated at their 30 June 2007 market value and are valued by DTZ Debenham Tie Leung and CBRE, professionally qualified external valuers in accordance with the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors DTZ Debenham Tie Leung and CBRE have recent experience in the relevant location and category of the properties being valued A reconciliation to the amount included above is set out below

	£000
DTZ and CBRE valuation as at 30 June 2007	288,266
Owner-occupied property included in property, plant and equipment	(1 407)
Lease inducements	(216)
Other adjustments	125
Investment and development properties as at 30 June 2007	286,768

Additions to freehold and leasehold properties include capitalised interest of £0 51m (2006 £nil) The capitalisation rate used was 6 1% The total amount of interest capitalised included in freehold and leasehold properties is £2 85m (2006 £2 76m)

Properties valued at £87 9m (2006 £75 8m) were subject to a security interest

(b) Company

	Freehold £000
At valuation 1 July 2006	2,052
Additions	54
Revaluation deficit	(56)
At valuation 30 June 2007	2,050

11 Tangible fixed assets and owner-occupied properties

Group	Freehold £000	Plant & vehicles £000	Total £000
At 1 July 2005	2,072	786	2,858
Additions	520	432	952
Disposals	—	(55)	(55)
Transfer to investment properties	(1 980)	—	(1,980)
Revaluation surplus	539	—	539
At 1 July 2006	1,151	1,163	2,314
Additions	10	84	94
Disposals	—	(421)	(421)
Revaluation surplus	148	—	148
At 30 June 2007	1,309	826	2,135
Depreciation			
At 1 July 2005	—	665	665
Charged in year	—	71	71
On disposals	—	(24)	(24)
At 1 July 2006	—	712	712
Charged in year	—	98	98
On disposals	—	(401)	(401)
At 30 June 2007	—	409	409
Net book value			
At 30 June 2006	1,151	451	1,602
At 30 June 2007	1 309	417	1 726
Properties held at valuation			
Cost	948	—	948
Valuation surplus	361	—	361
Valuation	1,309	—	1,309

Owner-occupied properties are valued by DTZ Debenham Tie Leung on the same basis as the investment properties See note 10 for details

Notes to the Accounts

12 Non-current trade and other receivables

	2007 £000	2006 £000
Mortgages receivable	**370**	366

The figures shown above are after deducting a provision for bad and doubtful debts of £0 1m (2006 £0 1m)

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

The mortgages are receivable on the disposal of the secured properties

13 Trading properties

	2007 £000	2006 £000
Land stock	**921**	1,282

14 Held for sale assets

	2007 £000	2006 £000
Antiques	—	—

The held for sale assets represent antiques previously used as office furnishings in our Haden Cross offices Following the relocation of the Group's head office in June 2006 a number of the antiques were put into storage for disposal at auction in the year ended 30 June 2007 A profit of £0 06m was made in the year

The antiques had been written off in full in the accounts in prior years

15 Trade and other receivables

Group	2007 £000	2006 £000
Falling due in less than one year		
Trade debtors	**2,431**	1,329
Other debtors	**1**	108
Prepayments and accrued income	**1,874**	1,248
	4,306	2,685

Included in prepayments is an amount of £1 63m (2006 £1 02m) relating to lease incentives which are amortised to the lease end

The figures shown above are after deducting a provision for bad and doubtful debts of £0 1m (2006 £0 1m)

Company	2007 £000	2006 £000
Falling due in less than one year		
Group undertakings	**109,611**	106,352
Prepayments and accrued income	**11**	9
VAT	**1**	2
	109,623	106,363

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

16 Cash and cash equivalents

	2007 £000	2006 £000
Cash at bank and in hand	**1,244**	(1,298)
Short-term deposits	**8**	11,065
	1,252	9,767

17 Trade and other payables

Group	2007 £000	2006 £000
Deferred income in respect of rents and insurances	**4,334**	4,031
Trade payables	**965**	1,590
Accruals and deferred income	**2,446**	2,416
	7,745	8,037
Company		
Group undertakings	**36,093**	58,358
Trade payables	**3**	—
Accruals	**401**	934
	36,497	59,292

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

18 Borrowings — bank overdraft and loans

	2007 £000	2006 £000
Bank overdraft (repayable on demand)	**—**	1,298

In 1999 the Group arranged a £20m revolving credit facility with HSBC Bank plc Security has been given over certain freehold properties held by the Group During 2005 the facility was reviewed and the facility now expires in 2010

On 19 June 2000, the revolving credit was reduced to £15m and the Group's overdraft limit increased from £5m to £10m On 22 March 2007, a further revolving credit of £20m was agreed with HSBC Bank plc with expiry in 2012 The Group's overdraft facility is reviewed annually

Of the total £35m revolving credit facilities, £14m (2006 £nil) was utilised at 30 June 2007

Notes to the Accounts

19 Borrowings

Group and Company	2007 £000	2006 £000
11 5% First Mortgage Debenture Stock 2014	**4,203**	15,903
Revolving credit facility	**14,000**	—
675,000 (2006 675,000) Preference shares of £1 each	**675**	675
	18,878	16,578

The 11 5% 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 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 11 5% First Mortgage Debenture Stock 2014 is redeemable at par on the final redemption date The Company may purchase the stock at any time in the market or by tender During the year the Group redeemed £11 70m of the 11 5% First Mortgage Debenture Stock 2014 at a cost of £16 59m

Details of the revolving credit facility are given in note 18

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

(a) Group	1 July 2006 £000	Recognised in income £000	Recognised in equity £000	REIT release £000	30 June 2007 £000
Valuation surplus on properties	24,276	922	34	(25,161)	**71**
Capital allowances	6,504	(398)	—	(6 044)	**62**
Other timing differences	168	55	—	(223)	—
Total deferred tax	30,948	579	34	(31,428)	**133**
(b) Company					
Valuation surplus on properties	375	(28)	—	(347)	—
Total deferred tax	375	(28)	—	(347)	—

Unrecognised deferred tax assets in relation to Industrial Buildings Allowances (IBAs) on leased buildings with a maximum value of £nil (2006 £3 8m) existed at the balance sheet date This has arisen as a result of conversion to a Real Estate Investment Trust (REIT) Had the REIT conversion not taken place then the proposals announced in the Budget in March 2007 but not yet enacted would be expected to significantly reduce the potential value of the unrecognised asset The Company has no unrecognised deferred tax assets The directors consider that there is significant uncertainty as to whether this amount will be realised and have therefore not recognised this amount in the financial statements

21 Share capital

	2007 £000	2006 £000
Authorised		
Equity		
117,300,000 (2006 117,300,000) Ordinary shares of 25p each	**29,325**	29,325
Allotted, Called Up and Fully Paid		
Equity		
59,991,990 (2006 59,991,990) Ordinary shares of 25p each	**14,998**	14 998

In addition to the above, the Company has £675,000 (2006 £675,000) at nominal value of £1 Preference shares, representing 4% (2006 4%) of the Company's capital These are classified within non-current borrowings, see note 19

22 Revaluation reserve

(a) Group	**Property revaluation reserve £000**	**Related deferred tax £000**	**Total £000**
At 1 July 2005	2,994	(672)	2,322
Surplus on development properties	4 415	(1,108)	3,307
Category transfer re completed developments	(1,274)	370	(904)
Transfer of owner-occupied property to investment property	(1,669)	368	(1,301)
At 1 July 2006	4,466	(1,042)	3 424
Surplus on development and owner occupied properties	167	(34)	133
Category transfer re completed developments	(3,604)	985	(2,619)
Transfer of development property to investment property	(30)	—	(30)
Reversal of deferred tax on REIT conversion	—	19	19
At 30 June 2007	**999**	**(72)**	**927**
(b) Company			
At 1 July 2005	1,441	(301)	1,140
Surplus on owner-occupied properties	227	(67)	160
Transfer of owner-occupied property to investment property	(1,668)	368	(1,300)
At 1 July 2006 and 30 June 2007	—	—	—

The revaluation reserve represents the revaluation surplus on the revaluation of development and 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 deferred tax relates to the unrealised valuation surpluses included in this reserve

Notes to the Accounts

23 Equity reserves

(a) Group	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 July 2006	11,162	186,088	197,250
Profit for the financial year	—	51,969	51,969
Dividends paid	—	(8,501)	(8,501)
Transfer on completion of development properties	—	2 619	2,619
Transfer on reclassification of development property	—	30	30
At 30 June 2007	**11,162**	**232,205**	**243,367**
(b) Company			
At 1 July 2006	11,162	25,278	36,440
Profit for the financial year	—	37,939	37,939
Dividend paid	—	(8,501)	(8,501)
At 30 June 2007	**11,162**	**54,716**	**65,878**

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

24 Reconciliation of movements in equity

Group	2007 £000	2006 £000
Opening net assets	**215,672**	193,134
Total recognised income and expense	**52,121**	30,451
Dividends	**(8,501)**	(7,913)
Closing net assets	**259,292**	215 672
Company		
Opening net assets	**51,438**	33,109
Total recognised income and expense	**37,939**	26,242
Dividends	**(8,501)**	(7,913)
Closing net assets	**80,876**	51,438

25 Financial instruments

The Group's principal financial instruments are debenture loans, bank borrowings, Preference share capital, cash and short-term deposits No interest rate hedging or trading in financial instruments was entered into during the period under review The Group's policy is not to enter into or trade in derivative financial instruments

The disclosures below exclude short-term receivables and payables The information on the fair value of short-term receivables and payables is given in notes 15 and 17

Interest rate risk and profile — Group	**2007 £000**	2006 £000
Sterling financial liabilities		
11 5% First Mortgage Debenture Stock 2014	**4,203**	15,903
Preference shares	**675**	675
Fixed rate	**4,878**	16,578
Floating rate (not hedged)	**14,000**	1 298
	18,878	17,876

Interest rate risk and profile — Company		
Sterling financial liabilities		
11 5% First Mortgage Debenture Stock 2014	**4,203**	15,903
Preference shares	**675**	675
Fixed rate	**4,878**	16,578
Floating rate (not hedged)	**14,000**	—
	18,878	16,578

The effective interest rate on fixed rate financial liabilities at 30 June 2007 was 10 88% (2006 11 32%) These liabilities excluding the preference share capital, are fixed for a weighted average period of 7 years (2006 8 years) The bank overdraft and revolving credit facility are at floating rate based on LIBOR or base rate

Group	**2007 £000**	2006 £000
Sterling financial assets		
Floating rate (not hedged)	**333**	11,117
Fixed rate	**67**	65
Non-interest bearing	**249**	249
	649	11,431

Company		
Sterling financial assets		
Floating rate (not hedged)	**8**	7,316

Financial assets are cash at bank and in hand, short-term deposits and mortgages receivable There were no money market deposits at 30 June 2007 In 2006 the effective interest rate was 3 33% fixed for a weighted average period of 1 day Cash at bank is at floating rate based on base rate

Notes to the Accounts

25 Financial instruments (continued)

Liquidity risk and maturity profile — Company and Group

The Group's policy for financing the business was mainly through the use of fixed rate long-term loans to manage interest rate risk In December 2006 the Group redeemed £11 7m of the 11 5% Debenture Stock 2014 and refinanced it with a five-year Revolving Credit Facility With this in mind the debt structure for the Group at 30 June 2007 was as follows

Interest rate risk and profile	**2007 £000**	**2007 %**	2006 £000	2006 %
More than two years but not more than five years	**14,000**	**74%**	—	—
More than five years	**4,878**	**26%**	16,578	100%
	18,878	**100%**	16,578	100%

The Group had undrawn revolving credit facilities of £21m at 30 June 2007 (2006 £15m), which expire in 2010 and 2012 The Group has a £10m overdraft facility which expires in less than one year £10m of this facility was undrawn as at 30 June 2007 (2006 £8 7m was undrawn)

Fair values As at 30 June 2007	**Book value £000**	**Fair value £000**	**Fair value adjustment £000**	**% of Book value**
11 5% First Mortgage Debenture Stock 2014	4,203	5,544	1 341	32
Revolving credit facility	14,000	14,000	—	—
Preference shares	675	648	(27)	(4)
Net debt and Preference share capital	18,878	20,192	1,314	7

Fair values As at 30 June 2006	**Book value £000**	**Fair value £000**	**Fair value adjustment £000**	**% of Book value**
11 5% First Mortgage Debenture Stock 2014	15,903	21,373	5 470	34
Preference shares	675	648	(27)	(4)
Net debt and Preference share capital	16,578	22,021	5,443	33

The fair value of the Debenture Stock is based on the mid price at the close of business of that instrument as sourced from the Daily Official List for 30 June 2007 and 30 June 2006 respectively The fair value of the Preference share capital has been based on its latest trade as it had not been quoted on the Daily Official List since 13 September 2002 The fair value of the revolving credit facility has been calculated by discounting expected cash flows at prevailing interest rates at the year end and is not materially different to book value

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

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and mortgages

The Group's credit risk is primarily attributable to its trade and mortgage receivables 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies

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

26 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 consolidated balance sheet

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

27 Operating leases

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

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

	2007	2006
	£000	£000
Not later than one year	**13,456**	13,300
Later than one year but not later than five years	**42,889**	40,809
Later than five years	**32,980**	34,422
	89,325	88,531

28 Commitments

	2007	2006
	£000	£000
(a) Capital		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	**7,422**	1 153
The amount of capital expenditure authorised in addition to the above commitments	—	—
(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	—	—

29 Related party transactions

	2007	2006
Company	**£000**	£000
Shares		
At cost	**19,833**	9 733

The shares in the subsidiary undertakings are stated at cost

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 are disclosed in aggregate below and are provided in detail in the audited part of the Directors' Remuneration Report

The Company undertakes the following transactions with its active subsidiaries

- Providing day-to-day funding, and
- Receiving annual dividends totalling £42 0m (2006 £27 0m)

There have been no material related party transactions with directors

Notes to the Accounts

29 Related party transactions (continued)

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 Directors' Remuneration Report on pages 26 to 29

Company	**2007 £000**	2006 £000
Short-term employee benefit	**1,275**	1,210
Termination benefits	**235**	—
Post-employment benefits	**131**	123
Share-based payment	**44**	40
	1,685	1,373

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 has the following wholly owned principal subsidiary undertakings All were registered and operated in England and Wales

Property investment and development

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

Trading

A & J Mucklow & Co Limited

31 Post-balance sheet events

Since the year end the Group has acquired a 48 000 sq ft industrial investment in Leamington Spa for £3 7m and realised £2 6m from the disposal of land held as trading properties

Five Year Record

	IFRS			UK GAAP	
	2007	2006	2005	2004	2003
	£000	£000	£000	£000	£000
Revenue					
Gross rental income	**14,285**	14,351	16,045	17,893	20 394
Net rental income	**13,537**	13,610	15,708	17,536	20,028
Other income	**10,158**	2,254	1,162	3,659	1,176
Profit on disposal of investment properties	**2,247**	707	1,096	1,527	12
Operating profit	**39,268**	37,909	27,352	19,142	19,471
Profit before taxation	**33,369**	36,434	9,444	13,880	10,328
Capital					
Net assets	**259,292**	215 672	193,134	202,567	182,631
Property portfolio	**288,077**	258 557	228,045	238,723	271,590
Per Ordinary Share					
Earnings	**86 62p**	45 24p	16 68p	20 56p	14 00p
Net dividend*	**14 73p**	13 71p	12 76p	11 88p	11 06p
Net asset value†	**432p**	360p	322p	338p	304p

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

The financial information shown in the above table has been prepared under UK GAAP for the financial years ended 30 June 2003 and 2004, and under IFRS for the financial years ended 30 June 2005, 2006 and 2007 For this reason, the information is not directly comparable over time

Shareholder Diary

Annual General Meeting		13 November 2007
Results announced		
For the half year to 31 December 2007		February 2008
For the year to 30 June 2008		September 2008
Ordinary dividends		
Final for 2006/2007	— announce	5 September 2007
	— pay	31 December 2007
Interim for 2007/2008	— announce	February 2008
	— pay	June 2008

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