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Real estate investors and developers

A&J Mucklow Group plc
Annual Report and Accounts
for the year ended 30 June 2009

MUCKLOW

Real estate investors and developers

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 selectively 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.

Mucklow's core business strategies

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

Financial Summary
for the year ended 30 June 2009

Property portfolio

	30 June 2009	30 June 2008
Portfolio value	**£201·0m**	£264·4m
Valuation deficit	**£(64·7)m**	£(40·9)m
Reduction in value	**24%**	13%
Equivalent yield	**9·5%**	7·2%
Occupancy rate	**90·5%**	92·9%

Balance sheet

	30 June 2009	30 June 2008
Net asset value	**£159·7m**	£222·7m
Basic NAV per share	**266p**	371p
Adjusted NAV per share*	**267p**	379p
Net debt	**£38·0m**	£29·2m
Gearing	**24%**	13%

Income statement

	Year ended 30 June 2009	Year ended 30 June 2008
Pre-tax loss	**£(52·0)m**	£(26·7)m
Net rental income	**£15·9m**	£15·2m
Basic EPS	**(86·71)p**	(45·44)p
Adjusted EPS†	**19·12p**	23·13p
Ordinary dividend	**17·68p**	17·68p

Recommended final dividend of 9·65p, making the total in respect of the year ended 30 June 2009 17·68p (2008: 17·68p).

* Excludes deferred tax and the mark to market on debt and includes the surplus on trading properties.

† Excludes the profit on disposal of investment properties, revaluation of investment and development properties and deferred tax. See note 9 for details.

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Real estate investors and developers

Chairman's Statement

Rupert J Mucklow

"It has been a very difficult and challenging year . . . Despite another significant reduction in the value of our property portfolio during the year, our balance sheet and underlying profitability remain in good shape."

UK commercial property values fell by 31% during our last financial year, according to the IPD Index. This follows a reduction of 19% in the previous 12 months. We have witnessed the most severe deterioration in asset values since the Company began and many property investors, burdened with high levels of debt, are struggling for survival.

Such a dramatic decline in capital values has inevitably had an impact on our results. However, I am pleased to report that Mucklow is extremely well positioned to ride out these turbulent times and benefit from the distressed market. Despite another significant reduction in the value of our property portfolio during the year, our balance sheet and underlying profitability remain in good shape.

M Results

Pre-tax loss for the year ended 30 June 2009 was £52·0m, compared with a pre-tax loss of £26·7m for the corresponding period last year. The loss is attributed to a £64·2m write-down in the value of the Group's investment properties and development land.

Net rental income for the year increased to £15·9m (2008: £15·2m), the increase mainly coming from rent reviews and a newly completed pre-let industrial unit. The underlying profit before tax*, which excludes the benefit of any capitalised interest, deficits on the revaluation of the property portfolio, and profit from the disposal of investment and trading properties, was £11·1m (2008: £10·4m).

EPRA diluted earnings per share† decreased during the period from 23·13p to 19·12p per share, mainly due to a smaller contribution of trading profit. Trading profit totalled £0·1m (2008: £2·6m), following our decision not to sell any residential land, at current depressed values.

EPRA (adjusted) net asset value per share†, including the current value of our trading properties, fell during the year from 379p to 267p per share, as a consequence of the fall in property values. Shareholders' funds reduced to £159·7m (2008: £222·7m), while borrowings net of cash amounted to £38·0m (2008: £29·2m), representing 24% of Shareholders' funds (2008: 13%).

Notwithstanding the decline in property values, the Board is recommending the payment of a final dividend of 9·65p per Ordinary share, making a total for the year of 17·68p per share. The dividend is being maintained at the same level as last year. If approved by shareholders, the dividend will be paid on 4 January 2010, to shareholders on the register at the close of business on 27 November 2009. The final dividend will consist of a PID (property income distribution) of 7·72p per share and 1·93p per share paid as an ordinary dividend.

M Property Review

In what has been a very difficult and challenging year, our priority has been to maintain occupancy levels above 90% and to protect rental income. We have sought to achieve this, by working closely with tenants experiencing cash flow problems and by marketing our vacant properties innovatively to secure new lettings. We have also been trying to reduce our overheads and prepare the business for the next phase of the property cycle, which hopefully for Mucklow will mean buying investment properties near the bottom of the market.

Property market recessionary pressures have caused occupier demand to weaken throughout the year and this, coupled with a steady rise in tenant defaults, gradually increased the amount of properties available to let. Letting incentives started to increase and rental levels fell in the second half of the year, as tenants had more choice and landlords began to compete aggressively for lettings, in order to avoid paying void rates.

Our vacant space increased by 68,441 sq ft during the year to 273,507 sq ft, representing 9·5% of the property portfolio (2008: 7·1%). We agreed new lettings on 102,971 sq ft of space during the year and took back 171,412 sq ft, mainly due to insolvencies. Rent collection has generally been better than expected, although we currently have approximately 6% of our rent roll being paid by special arrangement.

We sold two mature investment properties during the year in Wolverhampton for £1·7m. The properties were both let on short leases, with a combined income of £0·1m per annum. The properties were sold for £0·6m above book value.

The final phase of development at Yorks Park, Dudley was completed in December 2008, comprising a 40,000 sq ft industrial unit, let at a rent of £224,000 per annum. No other developments were carried out during the year.

We finally obtained outline planning consent in May 2009 for a 128,500 sq ft warehouse club, on our site in Coventry. We hope to start construction later this year and anticipate additional capital expenditure of around £9·0m to complete the development. The property has been pre-let to Costco, a large International operator, on a long lease, at an initial rent of £1·3m per annum.

DTZ Debenham Tie Leung reviewed the value of our investment properties at 30 June 2009. The investment portfolio, including development land, was valued at £201·0m, which showed a deficit for the year of £64·7m (24%). The initial yield on the investment properties increased from 6·5% to 8·6% and the equivalent yield from 7·2% to 9·5%.

We did not acquire any new properties during the year, but have been very closely monitoring the investment market. There have been very few quality opportunities available and falling property values and uncertainty over rental levels has made us cautious over property selection.

Since our year end, we have bought a modern investment property for £1·9m. The building is in a prominent location, close to the Aston Expressway in Birmingham and comprises a 35,000 sq ft industrial unit, built in 1996 to a high specification and let to BSS Group Plc until 2022, at a current rent of £195,000 per annum.

DTZ Debenham Tie Leung also reviewed the value of our trading properties at 30 June 2009. The total value was £5·2m (2008: £5·7m), which showed a surplus of £4·2m over book value, equivalent to 7p per share.

Total borrowings at 30 June 2009 amounted to £40·3m, of which £20m is fixed until 2023 at a rate of 5·6%. Gearing net of cash is 24%.

Since the year end we have agreed to renew terms on our £35m of existing banking facilities with HSBC Bank plc, which were due to expire in 2010 and 2012, and taken out an additional £25m of new facilities, which are intended for investment acquisitions and to help fund our pre-let development in Coventry. The facilities are for a period of 5 years at a margin of 195bp over LIBOR.

As part of our programme to reduce costs, we made two employees redundant during the year and all executive directors and senior management agreed to pay cuts of around 10%, for a period of 12 months. We have a very good loyal team of 13 employees at Mucklow and I would like to thank them all for their continued support and hard work during the year.

Despite all the doom and gloom in the Real Estate sector, shareholders may be interested to know that Mucklow has been the best performing company in the UK REIT sector, since the launch of REITs in January 2007. Total Shareholder Return for the 30 month period to 30 June 2009 for Mucklow was -43·9%, which compares with the sector average of -66·1%, for the 17 companies who have converted to REIT status. During the same period, the FTSE All Share Index has fallen 33·5% and UK commercial capital values by 43·2%.

Outlook

Maintaining rental income and occupancy levels over the next 12 months will remain our priority, as we do not expect any immediate recovery in the real estate market. The occupational market will remain weak for some time, but property values are likely to stabilise, in anticipation of an improvement in the economy next year. The income return and future capital growth prospects for commercial property are starting to look very attractive again and we intend to utilise our new banking facilities to selectively acquire investment properties.

Rupert J Mucklow
Chairman
28 September 2009

* See the property and financial review on page 9 for the calculations.

† See note 9 for the calculations.

MUCKLOW

Real estate investors and developers

Property and Financial Review

Justin Parker
Managing Director

David Wooldridge
Finance Director

The continuing economic and property market declines over the last twelve months have led to even more challenging conditions for the Group and the property market as a whole. The Group's strategy of concentrating our business within the Midlands region, whilst diversifying the portfolio by sector, not relying on any single tenant and low gearing continues to put us in a strong position to benefit from the current property market.

Our financial strength has led us to being one of the few REITs which hasn't had to issue equity, agree covenant waivers with banks, sell assets at discounted prices and/or reduce dividends.

M Strategy

The Group's long-term investment strategy remains unchanged. Our objective is to maintain a balanced portfolio of modern, income producing properties with potential for future rental and capital growth. The three main areas of our strategy remain:

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

We remain a selective developer of well-located, quality property and a counter-cyclical investor in investment property. We believe that the precise timing of acquisitions and disposals is crucial in boosting returns from our existing property portfolio. In addition, the proactive approach to the management of our assets allows us additional opportunity to enhance overall value.

M Investment

Following our conversion to a REIT in July 2007, the decision was made to make the main geographical focus of our business the Midlands Region.

Given the continued adjustment of pricing in the UK property sector, our decision to dispose of over £100m of secondary, ex-growth assets over the last few years has proved more than justified. This realigning of our investment portfolio to better quality stock has allowed us, to some extent, to insulate ourselves from the worst effects of the pricing adjustment that has affected the secondary property market, even though we have seen a £105·6m write-down in the value of the industrial and commercial portfolio over the last two years.

Our portfolio now comprises mainly modern, securely let properties benefiting from the following characteristics at 30 June 2009:

- No one tenant represents more than 3% of current passing rent;
- No one building or estate represents more than 7% of the portfolio valuation;
- Diversity of portfolio across the industrial, office and retail sectors;
- The retail element represents only 10% of the portfolio and comprises strategically located, single let investments with future development and asset management potential; and
- Average unexpired lease length in excess of 7·8 years.

Given the steep decline in property values across the UK over the course of the year, we have adopted a cautious approach to the purchase of investments. We had expected to encounter more suitable buying opportunities during the financial year, but there has been a limited amount of well-located, quality property available at attractive prices.

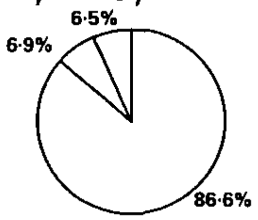
Summary of property portfolio

as at 30 June 2009

Area

Let Space sq ft

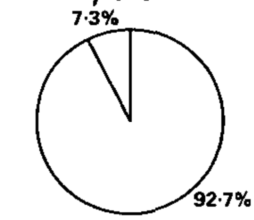
2,616,973



Industrial	2,266,066
Offices	180,365
Retail	170,542

Vacant Space sq ft

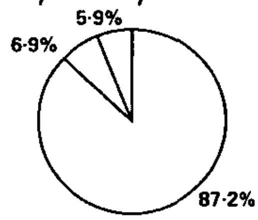
273,507



Industrial	253,556
Offices	19,951
Retail	—

Total Space sq ft

2,890,480

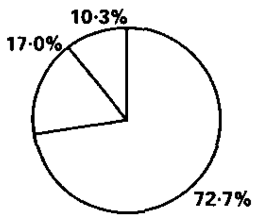


Industrial	2,519,622
Offices	200,316
Retail	170,542

Rent/Value

Current Rent £m pa

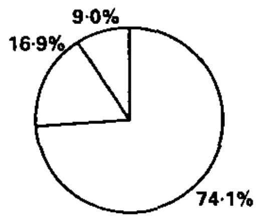
16·5



Industrial	12·0
Offices	2·8
Retail	1·7

ERV £m pa

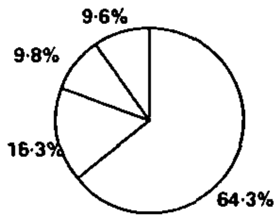
18·9



Industrial	14·0
Offices	3·2
Retail	1·7

Capital Value £m

201·0



Industrial	129·3
Offices	32·8
Retail	19·6
Investment Portfolio	181·7
Land/Development	19·3

Since the year end we have acquired a 35,000 sq ft industrial unit in Aston, Birmingham, occupied by The BSS Group plc until 2022, for £1·9m.

Despite the weak conditions, we have managed to sell profitably two investment properties and one old vacant unit in the financial year. The properties were Paul Street (Wolverhampton), Penn Road (Wolverhampton) and Unit 14 at our Coleshill Industrial Estate.

Paul Street was an 80,000 sq ft Victorian factory that had a 42 year occupational lease ending in June 2009. Completion took place just days before the end of the lease at a price of £1·25m, a considerable uplift over the December 2008 valuation of £0·8m.

Penn Road, a 0·4 acre former petrol station site, was sold to the existing tenant for £0·5m. The property was previously let at £7,000 pa, with the lease expiring in June 2009.

Unit 14 Coleshill was a 4,055 sq ft stand-alone industrial unit that formed part of our Coleshill Industrial Estate in Coleshill, Birmingham. The unit became vacant earlier this year due to the liquidation of the tenant. It was considered to be more economically viable to dispose of the unit, given the level of refurbishment required when the unit was handed back by the tenant.

Development

During the year we completed the final pre-let unit (40,000 sq ft) at the third and final phase of our Yorks Park, Dudley site.

Following agreement of terms to develop a 128,500 sq ft bespoke building for Costco, a large international operator, in the prior year, we have now been successful in a planning appeal on our site at Torrington Avenue, Coventry. Development is expected to be complete in the third quarter of the 2010 calendar year. The unit will be let on completion to Costco on a 25 year lease. The development is anticipated to cost a further £9·0m to complete.

All the remaining commercial development land, comprising over 30 acres, is being actively marketed to prospective tenants. Given the present uncertainty of the occupier market we feel it prudent to put on hold any further speculative development until a more confident and stable market returns.

Asset management

This aspect of our strategy forms a key focus for the Group. Through a pro-active, hands-on approach we have sought to drive additional value in terms of both rental and capital growth. Despite a challenging occupier market, we have managed to maintain our occupancy level above 90% (2009: 90·5%; 2008: 92·9%).

We have continued to review our portfolio for value enhancing opportunities. During the last financial year we have agreed lease renewals and reviews on 190,192 sq ft with reviews increasing our rental income by £0·3m per annum.

As at 30 June 2009 our investment portfolio, including commercial land and new developments, was valued at £201·0m by DTZ Debenham Tie Leung, which showed a deficit for the year of £64·7m (24%). The average equivalent yield on our investment properties increased during the year from 7·2% to 9·5%, with industrial at 9·8%, offices at 9·2% and retail at 8·4% at our year end.

Over the last two financial years the equivalent yield on our investment portfolio has moved out from 6.0% to 9.5%. The initial yield on our portfolio is now 8·6%. Although our properties are exceptionally modern, we have been penalised due to the length of leases, where valuers have taken a harsh view where less than five years are remaining to the expiry of a lease or a break.

Trading properties

We have not disposed of any trading properties during the twelve months to 30 June 2009, due to weaker market conditions.

The Group's trading properties mainly comprise residential land and were valued by DTZ Debenham Tie Leung as at 30 June 2009 at £5·2m (2008: £5·7m), which shows a surplus of £4·2m over book value.

Summary of property portfolio

as at 30 June 2009

Average Rent psf

Current Rent £psf (let space)		ERV £psf (incl. voids)		Growth Potential % (incl. voids)	
6·29		6·53		+14·6	
Industrial	5·31	Industrial	5·54	Industrial	+16·0
Offices	15·60	Offices	16·14	Offices	+14·9
Retail	9·51	Retail	9·93	Retail	+4·4

Net Returns

Initial Yield %		Equivalent Yield %		Capital value £ per sq ft	
8·6		9·5		62·85	
Industrial	8·8	Industrial	9·8	Industrial	51·32
Offices	8·6	Offices	9·2	Offices	163·63
Retail	8·1	Retail	8·4	Retail	114·84

Property and Financial Review continued

Financial performance

We have again presented our income statement in a three column format (on page 34), showing the adjusted income and expense on a consistent basis with previous years, excluding the impact of revaluation movements and profits on the disposal of investment properties. At a pre-tax level, the adjusted profit of £11·6m (2008: £14·4m) shows a decrease from the prior year of £2·8m, mainly reflecting the £2·5m decrease in profit on disposal of trading properties.

The requirement of International Financial Reporting Standards to include revaluation movements on the investment property portfolio in the income statement has resulted in a £64·2m charge in 2009, against a charge of £41·2m in the prior year. A reconciliation of the movement in our post-tax results is shown below:

	£000
Loss for the financial year ended 30 June 2008	(27,261)
Increase in net rental income	704
Reduction in profits realised from trading properties	(2,482)
Increase in administration costs	(220)
Increase in profit realised from investment properties	570
Movement in property portfolio valuation	(23,016)
Increase in net finance costs	(849)
Reduction in current tax payable	441
Other deferred tax movements	96
Loss for the financial year ended 30 June 2009	(52,017)

We have also presented on page 9 an analysis of the Group's underlying rental performance before tax, which excludes the impact of EPRA adjustments, and presented separately the profit on sale of trading properties. The directors consider that this further analysis of our income statement gives shareholders a useful comparison of our underlying performance for periods shown in the consolidated financial statements.

Our underlying rental performance has improved significantly over last year, with a 4·6% improvement in net rental income, reflecting the Group's focus on vacancy levels, letting of completed development properties and improvements in rent at review and on renewal. No investment properties were acquired in the year and disposals of rent producing properties had a limited impact on passing rent. Stripping out the trading profits, revaluation movements and other items, pre-tax profit rose by £0·7m, as shown below. There were no disposals of trading properties in the financial year as we decided not to sell at current depressed values. We have received some income from the trading properties in the year as a result of a retrospective claim for VAT. As disclosed in note 9 to the accounts, EPRA adjusted earnings decreased by £2·4m, with EPRA adjusted earnings per share ("eps") declining 17%, from 23·13p in 2008 to 19·12p in 2009.

Despite the underlying strength of our business model, our low gearing and quality property portfolio, we have focused on reducing our cost base. As a result, we made two employees redundant during the financial year. All of the senior management team have had their remuneration reduced for the twelve month period commencing on 1 April 2009 (including a basic pay freeze for the 1 July 2009 review period). The executive directors have not received any bonus payments in respect of either the 30 June 2008 or 30 June 2009 financial years. In addition, the Remuneration Committee has decided that even though the performance condition for full vesting of Justin Parker's transitional award under the Long Term Incentive Plan was met, the award was not allowed to vest. Full details of the executive directors remuneration are provided in the Board Report on Directors' Remuneration on pages 26 to 29.

We have saved around £2.6m of corporation tax in the current financial year as a result of our conversion to a Real Estate Investment Trust.

The interim dividend was paid as 100% Property Income Distribution ("PID"), attracting a 20% withholding tax for shareholders who are not eligible for gross payment. The final dividend of 9·65p will be paid as 7·72p per share (80%) being PID and the balance of 1·93p as a normal dividend. The level of dividend that must be distributed by way of a PID is determined by the tax legislation. Consequently, the phasing out of Industrial Building Allowances, the reduction in the rate of capital allowances on plant and machinery from 25% to 20% and the introduction of the lower 10% rate for integral features will reduce the adjustments required to profits in order to calculate the minimum PID obligation in future years.

The interim and proposed final dividends are only just covered by our underlying profits, mainly due to the reduction in profits realised from our trading properties. The Board's intention is to grow the rent roll to enable a sustainable, covered, increase in dividends over the long term, with a view to distributing around 90% of our recurring profit.

Underlying financial performance

2009	Total £000	**Investment/ Development £000**	Trading properties £000	Other items £000
Rental income	16,574	**16,574**	—	—
Property outgoings	(689)	**(689)**	—	—
Net rental income	15,885	**15,885**	—	—
Sale of trading properties	104	—	104	—
Property outgoings on trading properties	(33)	—	(33)	—
Net income from trading properties	71	—	71	—
Administration expenses	(2,998)	**(2,998)**	—	—
Operating profit before net losses on investment	12,958	**12,887**	71	—
Profit on disposal of investment property	618	—	—	618
Net losses on revaluation	(64,185)	—	—	(64,185)
Operating (loss)/profit	(50,609)	**12,887**	71	(63,567)
Finance income	354	**354**	—	—
Gross finance costs	(2,107)	**(2,107)**	—	—
Capitalised interest	360	—	—	360
Total finance costs	(1,747)	**(2,107)**	—	360
(Loss)/profit before tax	(52,002)	**11,134**	71	(63,207)

2008				
Rental income	15,772	**15,772**	—	—
Property outgoings	(591)	**(591)**	—	—
Net rental income	15,181	**15,181**	—	—
Sale of trading properties	2,653	—	2,653	—
Carrying value of trading properties	(98)	—	(98)	—
Property outgoings on trading properties	(2)	—	(2)	—
Net income from trading properties	2,553	—	2,553	—
Administration expenses	(2,778)	**(2,778)**	—	—
Operating profit before net losses on investment	14,956	**12,403**	2,553	—
Profit on disposal of investment property	48	—	—	48
Net losses on revaluation	(41,169)	—	—	(41,169)
Operating (loss)/profit	(26,165)	**12,403**	2,553	(41,121)
Finance income	60	**60**	—	—
Gross finance costs	(2,036)	**(2,036)**	—	—
Capitalised interest	1,432	—	—	1,432
Total finance costs	(604)	**(2,036)**	—	1,432
(Loss)/profit before tax	(26,709)	**10,427**	2,553	(39,689)

Presented above is an analysis of the underlying rental performance before tax, which excludes the impact of EPRA adjustments, capitalised interest and the profit on sale of trading properties. The directors consider that this further analysis of our income statement gives shareholders a useful comparison of our underlying performance for the periods shown in the consolidated financial statements.

Property and Financial Review continued

Net assets have fallen from £222·7m to £159·7m, mostly reflecting the £64·2m property portfolio revaluation write-down recognised in the income statement.

Our gearing has increased from 13% to 24%, reflecting £38·0m (2008: £29·2m) of net debt. This level of debt equates to only 19% of the DTZ valuation of our investment and development portfolio of £201·0m, a very low level of gearing compared to other REITs and quoted property companies. This has arisen as a direct result of our disposal programme in the last few years.

We have not acquired or disposed of any development properties since the year end.

Financing, cash flow and going concern

During the year we took the opportunity to commence negotiations to refinance some of our existing variable rate revolving credit drawdowns into longer term, fixed rate debt. £20·0m is being raised from HSBC Bank plc through a five year loan. Our current HSBC facilities of £45·0m (£10·0m overdraft, £15·0m 2010 Revolving Credit Facility and £20·0m 2012 Revolving Credit Facility) are also being renewed so that we will replace those facilities with a £5·0m overdraft and a £40·0m Five Year Revolving Credit Facility, increasing our HSBC facilities from £45·0m to £65·0m. The additional money raised will pay off existing revolving credit facility drawdowns and increase the level of funds available for property investment and construction of the Torrington Avenue, Coventry unit.

As at the date of this annual report the Group had undrawn banking facilities of £27·0m and had only drawn £18·0m from the 2012 Revolving Credit Facility, leaving undrawn amounts of £2·0m from the 2012 facility, £15·0m from the 2010 Revolving Credit Facility and £10·0m from the Group's overdraft. All of the remaining borrowings held by the Group at 30 June 2009 had more than five years to expiry, with £4·2m of debenture stock expiring in 2014, the £20·0m term loan ending in 2023 and £675,000 of preference share capital. Following completion of the legal process for the refinancing of the HSBC facilities, the Group's borrowings and available facilities will consist of:

Borrowing	Expiry year	Amount (£m)
Overdraft	2010	5·0
Revolving Credit Facility	2014	40·0
Term loan	2014	20·0
11·5% Debenture Stock	2014	4·2
Term loan	2023	20·0
Preference shares	—	0·7
		89·9

Of the £89·9m, £24·9m is at fixed rates. The 2014 term loan and part of the revolving credit facilities will be hedged.

Only the overdraft is due for renewal within twelve months of the date of this document.

As the date of this annual report the Group had £63·7m of properties that were unencumbered, providing significant capacity to raise additional finance, if required, or to provide additional security for existing facilities, should property values fall any further. During the 30 June 2009 financial year end we charged further properties to HSBC and Lloyds Banking Group to protect the loan to value covenants. We are complying with our banking facilities and the directors do not expect this position to alter in the forthcoming twelve months. Additional information about the going concern assumption is provided in the accounting policies note on page 40 of this annual report.

The directors have considered our forecast cash flows, the Group's low gearing, significant portfolio of unencumbered properties and the maturity profile of our borrowings, and have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Analysis of borrowings at 30 June

	2009 £000	2008 £000
11·5% First Mortgage Debenture Stock 2014	**4,203**	4,203
Preference Share Capital	**675**	675
Cash and Short-Term Deposits	**(2,352)**	(2,203)
Overdraft	**—**	76
Long-term loan	**19,942**	19,936
Borrowings from revolving credit facility	**15,500**	6,500
Net Debt and Preference Share Capital	**37,968**	29,187
Net Assets	**159,734**	222,680
Gearing (net of cash)	**24%**	13%

Outlook

Whilst there have been few signs of improving economic and property market conditions it could be argued that property market values are at or close to the bottom of the cycle. Conditions remain extremely testing having been exacerbated by the introduction of void rates, weakening occupier demand and a reduction in the availability of bank finance for the property sector. We are, without doubt, well placed to take advantage of this current downturn from our position of low gearing supported by a modern, quality portfolio. The challenge for us lies in our ability to find and purchase quality property at the right price and at the right time in the cycle.

Against this backdrop it is paramount that we maintain strong discipline in both the management of our business and the employment of our resources. The Group remains lean, efficient and tightly managed and despite the current challenges and the recent write-down in the value of the portfolio, our aim remains to maximise long-term returns for shareholders through actively managing income and keeping occupancy levels high.

We remain steadfast and confident in our strategy and business model. Our prudent approach has, most importantly, left us in the enviable position of low gearing with available cash resources in a market starved of finance. We look forward to taking advantage of this position during the course of the 2009/2010 Financial Year.

Justin Parker
Managing Director
28 September 2009

David Wooldridge
Finance Director
28 September 2009

Principal properties at 30 June 2009

1 Star Gate, Birmingham

2 Apex House, Apex 6 Business Park, Worcester

3 Oak Tree Court, Binley Business Park, Coventry

4 Roman Park, Coleshill

Industrial

Industrial	Area sq ft
Access Point, Leamington Spa	48,147
Bewdley Road, Stirchley, Birmingham	54,220
Birchley Island, Oldbury	41,534
Bull Ring Trading Estate, Birmingham	69,054
Camp Hill, Birmingham	124,270
Coleshill Trading Estate, Birmingham	185,602
Coleshill Trade Park, Birmingham	31,993
Crompton Fields, Crawley, West Sussex	160,551
Enterprise Trading Estate, Dudley	169,977
Forge Trading Estate, Halesowen	77,087
Forward Park Trading Estate, Birmingham	54,872
Golden Cross, Aston, Birmingham	76,722
Hazelwell Mills Trading Estate, Stirchley	95,899
Kings Hill Business Park, Wednesbury	126,294
Knightsbridge Park, Worcester	48,145
Long Acre Trading Estate, Birmingham	61,638
Middlemarch, Coventry	45,091
Mucklow Hill Trading Estate, Halesowen	97,247
Redfern Industrial Park, Tyseley, Birmingham	41,499
Roman Park, Coleshill	84,916
St Andrews Trading Estate, Birmingham	29,705
Shenstone Trading Estate, Halesowen	168,611
Star Gate, Birmingham	87,314
Stratton Business Park, Biggleswade, Bedfordshire	34,359
Tachbrook Link, Leamington Spa	85,312
Triton Park, Rugby	77,698
Wednesbury One, Wednesbury	172,466
Yorks Park, Dudley	157,655

Offices

Apex House, Apex 6 Business Park, Worcester	18,606
Apex Park, Worcester	28,100
Century House, Apex 6 Business Park, Worcester	23,061
Concorde House, Trinity Park, Solihull	24,125
Dukes Gate, Chiswick, London	17,757
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	20,856

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

MUCKLOW
Real estate investors and developers

Directors and Officers

Rupert J Mucklow BSc
Chairman‡

Aged 46
Joined the Group in 1990. Rupert was appointed as an executive director in 1995, Managing Director in 1996, Deputy Chairman in 2001 and Executive Chairman in 2004. He acts as Chairman of the Nomination Committee.

D Justin Parker BSc MRICS
Managing Director

Aged 44
Joined the Group as Managing Director in January 2004. Justin was previously National Head of Investment at DTZ Debenham Tie Leung.

David Wooldridge FCCA ACIS
Finance Director

Aged 37
Joined the Group in 1996. David was appointed as Company Secretary in 2002 and Finance Director in July 2007.

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

Aged 70
Appointed to the Board in 1995. David is a chartered surveyor and former joint senior partner of Bucknall Austin. He acts as Chairman of the Audit and Remuneration Committees.

Stephen Gilmore LLB
Independent Non-Executive *†‡

Aged 54
Appointed to the Board in 2008. Stephen is a qualified solicitor, who was previously partner in charge of the Birmingham office of Cobbetts LLP.

Paul A Ludlow FRICS
Independent Non-Executive *†‡

Aged 63
Appointed to the Board in 2007. Paul was Managing Director of Severn Trent Property Ltd until the sale of the business to ProLogis.

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

Senior Management

Jesse S J Stokes MRICS
Development

Mark Vernon MRICS
Investment

M David Folkes MCIOB
Residential Land/Development

David Rampling
Estate Management/Property Leasing

David J Tuft
Property Manager

Professional Advisers

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

Auditors
Deloitte LLP
Birmingham

Stockbrokers
UBS Limited
1 Finsbury Avenue
London, EC2M 2PP

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

Bankers
HSBC Bank plc
8th Floor
Exchange Buildings
8 Stephenson Place
Birmingham, B2 4NH

Lloyds TSB Bank plc
125 Colmore Row
Birmingham, B3 3SF

Corporate Advisers
UBS Limited
2 Finsbury Avenue
London, EC2M 2PP

Arden Partners plc
Nicholas House
3 Laurence Pountney Hill
London, EC4R 0EU

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

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU

Solicitors
Wragge & Co LLP
55 Colmore Row
Birmingham, B3 2AS

Pinsent Masons LLP
3 Colmore Circus
Birmingham, B4 6BH

Directors' Report

The directors present their annual report and audited accounts for the year ended 30 June 2009.

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

Results
The loss for the year and the dividends paid and proposed are set out in detail in the consolidated income statement and notes. The net loss before taxation for the year was £52·0m and the taxation charge was £0·02m.

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 11.

Details of the Key Performance Indicators 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 table below.

Key Performance Indicators

	2009	2008
Revaluation (deficit)/surplus		
— Income statement (£000)	**(64,185)**	(41,169)
— Statement of recognised income and expense (£000)	**(516)**	236
Rental income on the retained portfolio (£000)	**15,866**	15,274
Vacant space (%)	**9·5**	7·1

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
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 considers all development land acquisitions to ensure exposure is limited to reasonable levels and that prices paid are realistic

Risk area	
Financial ■ Reduced availability or increased cost of debt finance ■ Interest rate sensitivity ■ REIT compliance	■ Low gearing policy ■ Large, unencumbered property portfolio available as security ■ Existing facilities sufficient for spending commitments ■ Fixed rate debt in place and hedging strategy being reviewed ■ Internal procedures in place to track compliance
People ■ Retention/recruitment	■ Key man insurance ■ Remuneration structure reviewed ■ Regular assessment of performance

Ordinary dividends

On 30 June 2009, an interim dividend for the period ended 31 December 2008 of 8·03p per share was paid. A final dividend of 9·65p per share is proposed. The total dividend paid and proposed for the year will be 17·68p per share.

The final dividend, if confirmed, will be paid on 4 January 2010 to shareholders on the register at the close of business on 27 November 2009.

Employee share ownership scheme

On 25 October 2002 the Company adopted the HM Revenue & Customs approved A & J Mucklow Group plc Share Incentive Plan, under which all employees of the Group with a minimum period of service of six months prior to the start of an accumulation period are eligible to participate. HM Revenue & Customs allows monthly employee contributions of £125 (or 10% of salary if lower). Under the scheme an 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 14,120 (2008: 14,326) Ordinary shares were purchased, including no (2008: 6,644) free shares, at a cost to the Group of £14,120 (2008: £49,315). 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 7 (2008: 12). The average number of creditor days for the Company in 2009 was 23. The Company had no trade creditors at 30 June 2008. 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.

Directors' Report continued

Group structure

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

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

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

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.

We are also improving the environmental performance of our development properties. At our Wednesbury One, Yorks Park and Apex Park developments, BREEAM (Building Research Establishment Environmental Assessment Method) was used to assess the impact of the schemes, 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 £2,850 (2008: £3,175).

Directors

The present Board is as shown on page 14.

Justin Parker (Managing Director) and David Austin (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' shareholdings

Particulars of the directors' shareholdings in the Ordinary share capital of the Company are shown below. There were no other movements in any of the directors' shareholdings between 1 July 2009 and 8 September 2009.

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stock at either 30 June 2009 or 8 September 2009.

	Ordinary shares	
	at 30 June	at 30 June
Directors' shareholdings	**2009**	2008
Rupert J Mucklow	**735,805**	734,302
Justin Parker	**10,556**	9,054
David Wooldridge	**18,601**	17,098
David F Austin	**9,330**	9,330
Paul A Ludlow	—	—
Stephen Gilmore	—	—

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) (the Concert Party) collectively have an interest in 21,731,076 (2008: 21,734,212) Ordinary shares representing 36·22% (2008: 36·23%) of the issued Ordinary Share Capital.

In addition to the holdings noted above, on 18 September 2009, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following rights as a shareholder of the Company.

Substantial shareholdings	Number	%
Barclays PLC*	9,114,165	15·19
Tellin (Bermuda) Ltd	3,831,530	6·39
Wesleyan Assurance Society†	3,020,000	5·03
Standard Life Investments†	2,564,212	4·27
NFU Mutual Insurance Society Ltd†	2,174,248	3·62

* Including 6,992,509 shares included in the Concert Party holding referred to above. All of the above holdings are directly held, unless marked with a †.

Capital structure

Details of the authorised and issued share capital are shown in note 20. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The preference shares carry 7% interest but do not carry voting rights. The percentage of the issued nominal value of the ordinary shares is 96% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in the Directors' Report on page 17. Shares held by the trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of the directors are described in the Statement of Corporate Governance on page 21.

Directors' and officers' liability insurance

During the year the Company purchased and maintained liability insurance for its directors and officers as permitted by Section 234 of the Companies Act 2006.

Going concern

The Group's financing and cash flow position is discussed in the Property and Financial Review on page 10 and in the accounting policies on page 40 of this annual report. After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Close company provisions

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

Directors' Report continued

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 2009.

This revaluation has been incorporated in the accounts, resulting in a net decrease of £64·7m in reserves. Of this revaluation, £64·2m has been recognised in the income statement, with the balance going through the statement of recognised income and expense.

Financial instruments
Details of the exposure of the Company and its subsidiaries (included in the consolidation) to market risk, credit risk, or liquidity and cash flow risk from financial instruments can be found in note 24 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 418 of the Companies Act 2006.

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

By order of the Board

David Wooldridge
Secretary David Wooldridge

60 Whitehall Road, Halesowen
West Midlands, B63 3JS
28 September 2009

Statement of Corporate Governance

FRC Combined Code

The Company has complied with the Code provisions set out in Section 1 of the June 2008 FRC Combined Code on Corporate Governance throughout the year ended 30 June 2009, except provisions B.1.1 and C.3.1 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 considered this and a new Long-Term Incentive Plan for executive directors was introduced in 2007 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. The Long-Term Incentive Plan was approved by Shareholders in November 2007 and the first award was granted in December 2007. Further details are included below and in the Board Report on Directors' Remuneration.

No member of the Audit Committee had recent, relevant financial experience as suggested by code provision C.3.1.; however, the Audit Committee considers that the valuation of properties is the most judgemental item in the financial statements of the Group and therefore considers it appropriate for the Audit Committee to consist of two qualified property surveyors who have recent, relevant experience in the valuation of properties. The Audit Committee Chairman will continue to review the appropriateness of the experience of the members of the Audit Committee on an ongoing basis.

The Board

The Board comprised three executive directors: Rupert J Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director), and three non-executive directors: David Austin (Senior Independent Non-Executive), Paul Ludlow and Stephen Gilmore.

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, Paul Ludlow and Stephen Gilmore are considered to be independent for the reasons stated below.

David Austin was appointed as 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.

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

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

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), Justin Parker (Managing Director) and David Wooldridge (Finance Director) are eligible for an annual cash bonus of up to 60% of annual basic salary.

Statement of Corporate Governance continued

The Remuneration Committee had considered the remuneration of the executive directors, and in the previous financial year appointed Deloitte LLP to give advice and recommendations on Long-Term Incentives. As a result of this review, the Board proposed a new Long-Term Incentive Plan for the executive directors (excluding the Chairman), which has been approved by shareholders. Further details are included in the Board Report on Directors' Remuneration. Deloitte LLP are the Group's Auditors and tax advisers. Deloitte LLP have not received any fees for services to the Remuneration Committee in the year ended 30 June 2009.

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.

Justin Parker and David Austin are seeking re-election as directors at the 2009 Annual General Meeting.

Justin Parker BSc MRICS (44) joined the Group as Managing Director in January 2004. He was previously National Head of Investment at DTZ Debenham Tie Leung.

David Austin FRICS (70), 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.

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 2009 is as follows:

	Board	Audit	Remuneration	Nomination
Number held	12	3	1	—
Rupert J Mucklow	12/12	n/a	n/a	—
Justin Parker	12/12	n/a	n/a	n/a
David Wooldridge	12/12	n/a	n/a	n/a
David F Austin	11/12	3/3	1/1	—
Paul Ludlow	12/12	3/3	1/1	—
Stephen Gilmore	12/12	3/3	1/1	—

n/a indicates not a member of that committee.

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 comprises David Austin FRICS (Senior Independent Non-Executive), Paul Ludlow FRICS and Stephen Gilmore LLB.

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 Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- To develop and implement policy on the engagement of the external Auditors 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 internal controls at Turnbull Committee meetings.

Representatives of Deloitte LLP, the Company's Auditors, and senior management may attend the Audit Committee meetings at the invitation of the Committee.

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

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 function; and
- Reviewed the appointment of the external Auditors as auditors and tax advisers.

Remuneration Committee

The Remuneration Committee comprised David Austin FRICS (Senior Independent Non-Executive), Paul Ludlow FRICS and Stephen Gilmore LLB.

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 26 to 29.

Nomination Committee

The Nomination Committee comprised Rupert J Mucklow (Group Chairman), David Austin FRICS (Senior Independent Non-Executive), Paul Ludlow FRICS and Stephen Gilmore LLB.

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.

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

Statement of Corporate Governance continued

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; and
- Twice yearly internal controls meetings of the Board, to discuss the effectiveness of internal controls and formally consider business risks. Issues are also raised at monthly Board meetings as appropriate.

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

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

4. Computer systems

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

5. Controls over central functions

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

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

6. Role of the executive directors

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

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 2006 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 consists of three non-executive directors: me as Chairman, Paul Ludlow and Stephen Gilmore. The Committee is responsible for the consideration and approval of the terms of service, remuneration, pension arrangements and other benefits of the Group's executive directors. 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 received by the executive directors does not currently have a significant performance related element. The Remuneration Committee has resolved that Rupert J Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director) 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 60% 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; and
- The overall remuneration of the individual.

No bonuses have been received by the directors in respect of the 30 June 2009 financial year end.

The Remuneration Committee has considered the remuneration arrangements of the executive directors and decided that a new Long-Term Incentive Plan should be introduced for executive directors (excluding the Chairman) and senior management at the Remuneration Committee's discretion. The A & J Mucklow Group plc 2007 Performance Share Plan ("the plan"), which was approved by Shareholders at the 2007 Annual General Meeting, consists of annual awards in the form of nominal-priced options worth up to a maximum of 75% of annual basic salary.

The vesting of awards is 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 arrangement was 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, has been granted.

The transitional award period ended on 3 June 2009. Although the comparative total shareholder return (TSR) target was met to enable full vesting, the Remuneration Committee considered that it was not in shareholders' best interests for this award to vest and in coming to their decision the Remuneration Committee took the following matters into account: TSR for shareholders was negative; current economic and property market conditions; and the fact that voluntary reductions in remuneration had been accepted by the Group executive directors and senior management, details of which are provided later in this report.

Although offered by the non-executive directors, the executive directors did not consider it appropriate for the non-executive directors' remuneration to be reduced.

The remuneration reductions and non-vesting of the transitional award are steps that the executive directors and Remuneration Committee have taken to reduce the Group's cost base in a challenging property market, even though the Group has performed well in these difficult conditions and remains lowly geared and well positioned to benefit from a weaker property market.

The Remuneration Committee considers that the annual bonus, in conjunction with the 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 on 1 July;
2. an annual cash bonus;
3. in respect of Justin Parker and David Wooldridge, a share-based Long-Term Incentive Plan;
4. benefits in kind which relate principally to the provision of a company car;
5. pension contributions;
6. an all employee, HM Revenue & Customs approved, share incentive plan. Further details of the scheme are given in the Directors' Report.

Benefits in kind are not pensionable.

On 1 April 2009 the executive directors voluntarily reduced their remuneration for the twelve month period to 31 March 2010. Rupert Mucklow's basic pay has been reduced by £15,000 pa and his pension contributions by £24,800 pa. Justin Parker's pension contributions have been reduced by £21,800 pa. David Wooldridge's pension contributions of £14,000 pa have been reduced to nil. The reductions in pension contributions for the executive directors amount to 10% of their basic pay.

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

Directors' emoluments (audited)	**Basic salary £000**	**Fees £000**	**Benefits in kind £000**	**Pension £000**	**Share scheme £000**	**Total 2009 £000**	2008 £000
Executive							
Rupert J Mucklow	244	—	26	31	2	**303**	303
Justin Parker	218	—	31	27	2	**278**	273
David Wooldridge	140	—	10	10	2	**162**	145
Non-executive							
David F Austin	—	27	—	—	—	**27**	26
Paul A Ludlow	—	23	—	—	—	**23**	22
Stephen Gilmore (appointed 13 May 2008)	—	23	—	—	—	**23**	3
	602	73	67	68	6	**816**	772

Notes

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

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

iii) Rupert J Mucklow, Justin Parker and David Wooldridge are members of a defined contribution pension scheme.

iv) The Group currently operates a HM Revenue & Customs approved all employee Share Incentive Plan. Further details are given in the Directors' Report on page 17. During the year Rupert J Mucklow received 1,503 Ordinary shares, with a value of £3,006, Justin Parker received 1,502 Ordinary shares with a value of £3,004 and David Wooldridge received 1,503 Ordinary shares with a value of £3,006 at a cost to each director of £1,500 (excluding tax relief). Non-executive directors are not eligible for the scheme.

Board Report on Directors' Remuneration continued

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. Non-executive directors do not have service contracts. The terms and conditions for the non-executive directors are available on request.

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

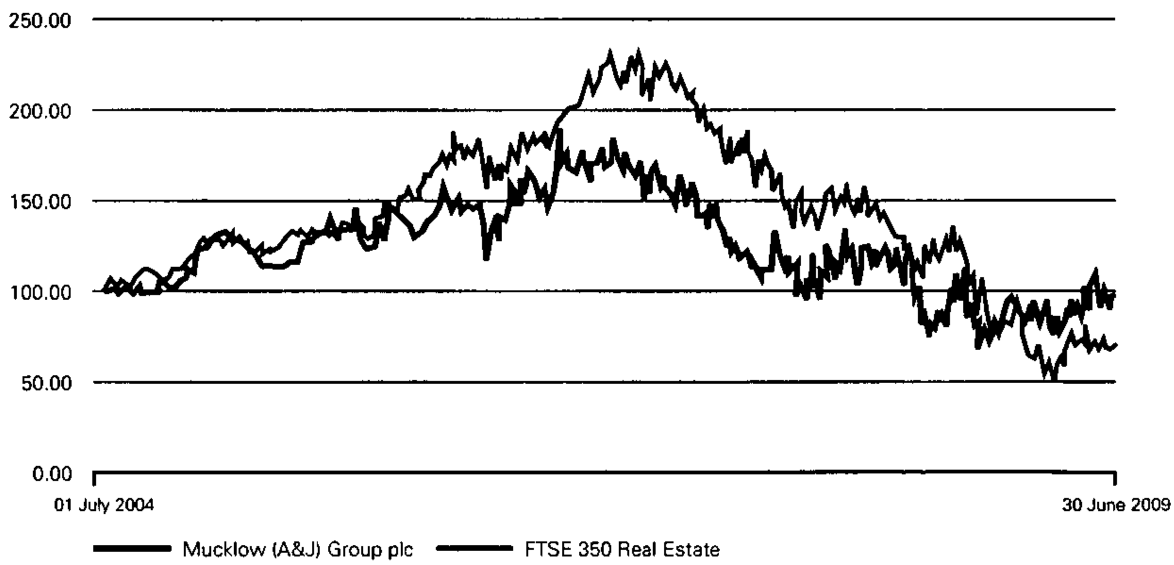
Pensions

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. No Group company pension scheme is operated for the other directors.

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.

Mucklow (A&J) Group plc— Total Return on Investment



Source: Thomson One Banker

Long-Term Incentive Plan ("LTIP")

Details of options for directors who served during the year are as follows:

Name of director	Scheme	1 July 2008	Granted	Lapsed	30 June 2009	Exercise price	Date from which exercisable	Expiry Date*
Justin Parker	Transitional award†	56,200	—	(56,200)	—	25p	n/a	n/a
Justin Parker		56,200	—	—	56,200	25p	3/12/2010	3/12/2017
Justin Parker		—	64,235	—	64,235	25p	13/10/2011	13/10/2018
David Wooldridge		32,114	—	—	32,114	25p	3/12/2010	3/12/2017
David Wooldridge		—	41,176	—	41,176	25p	13/10/2011	13/10/2018

* 10 years from the date of grant.

† An award of 75% of salary which would have vested, subject to the satisfaction of performance conditions (i.e. halfway through the 'gap' period from January 2008 to January 2011). This is a specific arrangement for the initial grant to the Managing Director under the Plan and will not be repeated.

Awards from October 2008 will be made annually, over shares worth up to a maximum of 75% of salary and will vest three years later subject to the satisfaction of performance conditions. None of the awards required a price to be paid by the director in respect of the award.

No options were exercised during the year. The vesting of the above awards will be subject to performance conditions over a three year period as given on page 26.

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

The rules of the Plan are available for inspection at the Company's registered office, 60 Whitehall Road, Halesowen, West Midlands, B63 3JS.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The market price of the ordinary shares at 30 June 2009 was 250p and the range during the year was 178p to 312p.

As Chairman of the Remuneration 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 2009

MUCKLOW

Real estate investors and developers

Directors' Responsibilities Statement

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Rupert Mucklow
Chairman
28 September 2009

David Wooldridge
Finance Director
28 September 2009

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

We have audited the financial statements of A & J Mucklow Group plc for the year ended 30 June 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2009 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement contained within the property and financial review in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Anna Marks

Anna Marks
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, United Kingdom
28 September 2009

Financial Statements

Contents

Consolidated Income Statement
for the year ended 30 June 2009

	Notes	2009 Adjusted Income & expense £000	2009 Adjustments £000	2009 Total Income & expense £000	2008 Adjusted Income & expense £000	2008 Adjustments £000	2008 Total Income & expense £000
Revenue	2	**16,678**	—	**16,678**	18,425	—	18,425
Gross rental income relating to investment properties	2	**16,574**	—	**16,574**	15,772	—	15,772
Property outgoings		**(689)**	—	**(689)**	(591)	—	(591)
Net rental income relating to investment properties		**15,885**	—	**15,885**	15,181	—	15,181
Proceeds on sale of trading properties	2	**104**	—	**104**	2,653	—	2,653
Carrying value of trading properties sold		—	—	—	(98)	—	(98)
Property outgoings relating to trading properties		**(33)**	—	**(33)**	(2)	—	(2)
Net income from trading properties		**71**	—	**71**	2,553	—	2,553
Administration expenses		**(2,998)**	—	**(2,998)**	(2,778)	—	(2,778)
Operating profit before net (losses)/gains on investment		**12,958**	—	**12,958**	14,956	—	14,956
Profit on disposal of investment properties		—	**618**	**618**	—	48	48
Net losses on revaluation of investment and development properties	3	—	**(64,185)**	**(64,185)**	—	(41,169)	(41,169)
Operating profit/(loss)	4	**12,958**	**(63,567)**	**(50,609)**	14,956	(41,121)	(26,165)
Net finance costs	6	**(1,393)**	—	**(1,393)**	(544)	—	(544)
Profit/(loss) before tax	4	**11,565**	**(63,567)**	**(52,002)**	14,412	(41,121)	(26,709)
Current tax		**(94)**	—	**(94)**	(535)	—	(535)
Deferred tax credit/(charge)		—	**79**	**79**	—	(17)	(17)
Total tax (charge)/credit	7	**(94)**	**79**	**(15)**	(535)	(17)	(552)
Profit/(loss) for the financial period		**11,471**	**(63,488)**	**(52,017)**	13,877	(41,138)	(27,261)
Basic and diluted loss per share	9			**(86·71p)**			(45·44p)

All operations are continuing.

Notes

The Group has presented the income statement in a three-column format, so as to present adjusted amounts to exclude the impact of EPRA adjustments and related tax. The directors consider that the adjusted figures give a useful comparison for the periods shown in the consolidated financial statements.

Consolidated Balance Sheet
at 30 June 2009

	Notes	2009 £000	2008 £000
Non-current assets			
Investment and development properties	10	**199,664**	262,991
Property, plant and equipment	11	**1,323**	1,657
Trade and other receivables	12	**315**	332
		201,302	264,980
Current assets			
Trading properties	13	**965**	912
Trade and other receivables	14	**4,931**	3,993
Cash and cash equivalents	15	**2,352**	2,203
		8,248	7,108
Total assets		**209,550**	272,088
Current liabilities			
Trade and other payables	16	**(7,894)**	(13,410)
Borrowings	17	**—**	(76)
Tax liabilities		**(1,602)**	(4,464)
		(9,496)	(17,950)
Non-current liabilities			
Borrowings	18	**(40,320)**	(31,314)
Deferred tax	19	**—**	(144)
		(40,320)	(31,458)
Total liabilities		**(49,816)**	(49,408)
Net assets		**159,734**	222,680
Equity			
Called up ordinary share capital	20	**14,998**	14,998
Revaluation reserve	21	**605**	1,055
Share-based payment reserve	22	**109**	48
Redemption reserve	22	**11,162**	11,162
Retained earnings	22	**132,860**	195,417
Total equity	23	**159,734**	222,680
Net assets per Ordinary share			
— Basic and diluted	9	**266p**	371p
— Adjusted	9	**267p**	379p

Rupert J Mucklow
David Wooldridge

Approved by the Board on 28 September 2009.

The notes attached are an integral part of the accounts.

Parent Company Balance Sheet
at 30 June 2009

	Notes	2009 £000	2008 £000
Non-current asset			
Investments	28	**182,795**	186,902
		182,795	186,902
Current assets			
Trade and other receivables	14	**32,978**	30,228
Corporation tax recoverable		**10**	8,153
Cash and cash equivalents		**—**	8
		32,988	38,389
Total assets		**215,783**	225,291
Current liabilities			
Trade and other payables	16	**(524)**	(8,485)
Tax liabilities		**(804)**	—
		(1,328)	(8,485)
Non-current liabilities			
Borrowings	18	**(20,378)**	(11,378)
Total liabilities		**(21,706)**	(19,863)
Net assets		**194,077**	205,428
Equity			
Called up ordinary share capital	20	**14,998**	14,998
Share-based payment reserve	22	**109**	48
Redemption reserve	22	**11,162**	11,162
Retained earnings	22	**167,808**	179,220
Total equity	23	**194,077**	205,428

Rupert J Mucklow
David Wooldridge

Approved by the Board on 28 September 2009.

Consolidated Statement of Recognised Income and Expense
for the year ended 30 June 2009

	Notes	2009 £000	2008 £000
(Deficit)/gain on revaluation of development and owner-occupied properties	3	**(516)**	236
Cancellation of share options	22	**66**	—
Deferred tax liability on items taken to equity	7	**65**	6
Net (deficit)/gain recognised directly in equity		**(385)**	242
Loss for the year		**(52,017)**	(27,261)
Total recognised income and expense for the year	23	**(52,402)**	(27,019)

There are no other recognised items of income or expense for the current or prior year periods for the Parent Company and accordingly no statement of recognised income and expense is presented for the Parent Company.

Consolidated Cash Flow Statement
for the year ended 30 June 2009

	Notes	2009 £000	2008 £000
Cash flows from operating activities			
Operating loss		(50,609)	(26,165)
Adjustments for non-cash items			
— Unrealised net revaluation losses on investment and development properties		64,185	41,169
— Profit on disposal of investment properties		(618)	(48)
— Depreciation and other non-cash items		95	93
— Profit on sale of fixed assets		—	(23)
Other movements arising from operations			
— (Increase)/decrease in trading properties		(56)	47
— (Increase)/decrease in receivables		(748)	367
— Increase/(decrease) in payables		793	(678)
Net cash generated from operations		13,042	14,762
Interest received		339	42
Interest paid		(2,101)	(1,522)
Preference dividends paid		(47)	(47)
Corporation tax paid		(3,586)	(5,367)
Net cash inflow from operating activities		7,647	7,868
Cash flows from investing activities			
Acquisition and property development		(3,579)	(14,859)
Grants received		34	293
Sales of investment properties		1,915	48
Expenditure on property, plant and equipment		—	(89)
Net cash outflow from investing activities		(1,630)	(14,607)
Cash flows from financing activities			
Net increase in borrowings		8,924	12,513
Equity dividends paid		(14,792)	(4,823)
Net cash (outflow)/inflow from financing activities		(5,868)	7,690
Net increase in cash and cash equivalents		149	951
Cash and cash equivalents at 1 July		2,203	1,252
Cash and cash equivalents at 30 June	15	2,352	2,203

Parent Company Cash Flow Statement
for the year ended 30 June 2009

	2009 £000	2008 £000
Cash flows from operating activities		
Operating loss	**(1,273)**	132,707
Adjustments for non-cash items		
— Impairment of investment in subsidiaries	**29,587**	644
Other movements arising from operations		
— Increase in receivables	**(15,049)**	(84,354)
— Decrease in payables	**(3,082)**	(32,830)
Net cash generated from operations	**10,183**	16,167
Interest received	**59**	1
Interest paid	**(975)**	(380)
Preference dividends paid	**(47)**	(47)
Corporation tax paid	**(3,436)**	(3,416)
Net cash inflow from operating activities	**5,784**	12,325
Cash flows from investing activities		
Expenditure on property, plant and equipment	**—**	(2)
Net cash outflow from investing activities	**—**	(2)
Cash flows from financing activities		
Net increase/(decrease) in borrowings	**9,000**	(7,500)
Equity dividends paid	**(14,792)**	(4,823)
Net cash outflow from financing activities	**(5,792)**	(12,323)
Net decrease in cash and cash equivalents	**(8)**	—
Cash and cash equivalents at 1 July	**8**	8
Cash and cash equivalents at 30 June	**—**	8
Cash and cash equivalents consists of:		
Cash at bank	**—**	—
Short-term deposits	**—**	8

Notes to the Accounts

1 Accounting policies

Basis of preparation of financial information

A & J Mucklow Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 15.

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 and certain financial assets, 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.

As at 30 June 2009 the Group had £29·5m of undrawn banking facilities and had drawn down £15·5m from its HSBC £20m 2012 Revolving Credit Facility. The Group's £10m overdraft and £15m 2010 Revolving Credit Facility, both of which were due for renewal within 12 months of the date of this document, were undrawn. Since the year end the Group has agreed terms with HSBC to renew all of the Group's HSBC banking facilities, and in addition to take out a five year £20m term loan. The legal work required is ongoing and is expected to be completed within the next couple of months. The Group's new £40m of revolving credit facilities will expire in 2014 and the revised £5m overdraft was renewed for a twelve month period. Given these new facilities, the Group's low gearing level of 24% and £63·7m of unencumbered properties (after taking into account properties pledged to HSBC for the new facilities), significant capacity exists to raise additional finance or to provide additional security for existing facilities, should property values fall further. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

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 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these accounts. The Parent Company's loss for the financial year after taxation amounted to £0·8m.

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:

IAS 1 (revised)	Presentation of financial statements
IAS 23 (revised)	Borrowing costs
IAS 27 (revised)	Consolidated and separate financial statements
IAS 40	Investment Property (amendment)
IFRS 1 (revised)	First Time Adoption of IFRS
IFRS 2	Share based payments (amendment)
IFRS 3 (revised)	Business Combinations
IFRS 7	Improving Disclosures about Financial Instruments
IFRS 8	Operating segments
IFRIC 9	Reassessment of embedded derivatives
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

1 **Accounting policies** continued

In addition, Improvements to IFRSs, issued in April 2009 is the current year tranche of the Improvements to IFRS project and has a number of minor amendments to existing IAS and IFRS, which require implementation from 1 July 2009.

IAS 1 (revised) and the amendment to IAS 40 are the only changes that are expected to have a material impact on the financial statements of the Group. This revision to IAS 1 is applicable from 1 July 2009, and is expected to affect the presentation and classification of certain items within the Group's financial statements. An amendment to IAS 40 'Investment Property' will mean that, with effect from the next reporting period commencing 1 July 2009, property under construction or development for future use as an investment property will be recognised in investment property and measured at fair value through the income statement. This replaces the current treatment under IAS 16, where properties acquired to be developed for future use as an investment property are treated as development property until completion, with any fair value movement recorded in the Statement of Recognised Income and Expense. It is not possible to estimate the impact that this is likely to have on the Group, but the effect will be on profit before tax, with no change in net assets.

Other than the revision to IAS 1 and the amendment to IAS 40, the directors anticipate that the adoption of these Standards, Amendments and Interpretations in future periods will have no material impact on the financial statements of the Group.

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.

Dividends and interest income

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

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

Cost of properties

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

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

Notes to the Accounts continued

1 Accounting policies continued

Valuation of properties

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

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

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.

1 Accounting policies continued

Share-based payments

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

Deferred taxation

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 substantively 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 provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for any amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or they expire.

Notes to the Accounts continued

1 Accounting policies continued

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.

Available-for-sale assets

Mortgages receivable held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in note 12. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, which are recognised directly in the income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss recognised in the investments revaluation reserve is included in profit or loss for the period.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accrual basis in the income statement 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

	2009 £000	2008 £000
Total rental income from investment and development properties	**16,574**	15,772
Income received from trading properties	**104**	2,653
	16,678	18,425
Finance income (note 6)	**354**	60
Total revenue	**17,032**	18,485

3 Segmental analysis — primary segments

	2009 £000	2008 £000
Investment and development properties		
— Net rental income	**15,885**	15,181
— Profit on disposal	**618**	48
— Deficit on revaluation of investment properties	**(57,184)**	(38,440)
— Deficit on revaluation of development properties	**(7,001)**	(2,729)
	(47,682)	(25,940)
Trading properties		
— Income received from trading properties	**104**	2,653
— Carrying value on sale	**—**	(98)
— Property outgoings	**(33)**	(2)
	71	2,553
Administration expenses	**(2,998)**	(2,778)
Operating loss	**(50,609)**	(26,165)
Net finance costs	**(1,393)**	(544)
Loss before tax	**(52,002)**	(26,709)
The property revaluation deficit has been recognised as follows:		
Income statement		
— Investment properties	**(57,184)**	(38,440)
— Development properties	**(7,001)**	(2,729)
	(64,185)	(41,169)
Statement of recognised income and expense		
— Development and owner-occupied properties	**(516)**	236
Total revaluation deficit for the period	**(64,701)**	(40,933)

Notes to the Accounts continued

3 Segmental analysis — primary segments continued

	2009 £000	2008 £000
Balance sheet — segment assets		
Investment and development properties		
— Segment assets	**204,359**	265,906
— Segment liabilities	**(5,041)**	(6,243)
	199,318	259,663
Trading properties		
— Segment assets	**965**	912
— Segment liabilities	**—**	—
	965	912
Other activities		
— Unallocated assets	**1,891**	3,067
— Unallocated liabilities	**(4,472)**	(11,774)
— Net borrowings	**(37,968)**	(29,188)
	(40,549)	(37,895)
Net assets	**159,734**	222,680
Capital expenditure		
Investment and development properties	**2,072**	15,929
Property, plant and equipment	**—**	162
	2,072	16,091
Depreciation		
Investment and development properties	**—**	—
Property, plant and equipment	**95**	93
	95	93

All operations and income are derived from the United Kingdom.

4 Loss for the year

	2009 £000	2008 £000
Loss for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**95**	93
Profit on the sale of fixed assets	**—**	(23)
Net losses on revaluation of investment and development properties	**64,185**	41,169
Staff costs (see note 5)	**1,665**	1,585

Auditors' remuneration — Deloitte LLP

	2009 £000	2008 £000
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	**34**	37
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**	9
	53	58
Other services relating to taxation	**139**	115
	192	173

Other than £30,000 allocated to property outgoings relating to trading properties (2008: £Nil) all of the above items are included in administration expenses.

The fees paid to the Group's Auditors in the current and prior year 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 REIT compliance. The level of fees paid to Deloitte LLP for non-audit services during the year has been reviewed by the Audit Committee, who are satisfied that there is no risk of the independence of the audit being compromised.

The use of Deloitte LLP 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 continued

5 Staff costs (including directors)

Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year was as follows:

	2009 number	2008 number
Management	**5**	4
Administration	**5**	5
Property	**7**	8
Total employees	**17**	17

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:

	2009 £000	2008 £000
Wages and salaries	**1,284**	1,208
Share-based payment	**79**	81
Social security costs	**170**	153
Pension costs	**132**	143
	1,665	1,585

Pension arrangements

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

Pension contributions (including directors) paid in the year ended 30 June 2009 amounted to £131,962 (2008: £142,934).

6 Net finance costs

	2009 £000	2008 £000
Finance costs on:		
Debenture stock	**483**	483
Preference share dividend	**47**	47
Capitalised interest	**(360)**	(1,432)
Bank overdraft and loan interest payable	**1,577**	1,506
Total finance costs	**1,747**	604
Finance income on:		
Short-term deposits	**2**	6
Bank and other interest receivable	**352**	54
Total finance income	**354**	60
Net finance costs	**1,393**	544

7 Taxation

	2009 £000	2008 £000
Tax charge		
Current tax		
— Corporation tax charged at 28% (2008: 29·5%)	**171**	877
— Prior year adjustment	**(77)**	(342)
	94	535
Deferred tax		
— Other deferred tax	**—**	17
— Prior year adjustment	**(79)**	—
Deferred tax (credit)/charge	**(79)**	17
Total tax charge in the income statement	**15**	552
Tax recognised in equity		
Deferred tax	**(65)**	(6)

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

	2009 £000	2008 £000
Loss on ordinary activities before tax	**(52,002)**	(26,709)
(Loss)/profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 28% (2008: 29·5%)	**(14,561)**	(7,879)
Effect of:		
Other deferred tax movements	**(79)**	17
REIT exempt income and gains	**14,838**	8,742
IFRS 2 charge	**17**	14
Net movement in prior year liabilities	**(123)**	—
Adjustments in respect of prior years	**(77)**	(342)
	15	552

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 such development properties. The value of development properties at 30 June 2009 was £17·0m (2008: £28·6m) and if the tax exemption was lost the amount of tax payable on this value would be £0·2m (2008: £nil).

The United Kingdom Government enacted provisions reducing the standard rate of corporation tax to 28% with effect from 1 April 2008. Therefore, the standard rate of tax applicable to the Group is 28% (2008: 29·5%).

8 Dividends

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 30 June 2008 of 9.65p (2007: 8·04p) per share	**5,787**	4,823
Interim dividend for the year ended 30 June 2009 of 8.03p (2008: 8·03p) per share	**4,818**	4,818
	10,605	9,641

The directors propose a final dividend for the year ended 30 June 2009 of 9·65p (2008: 9·65p) per Ordinary share, totalling £5·8m.

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 4 January 2010 to shareholders on the register at the close of business on 27 November 2009.

Notes to the Accounts continued

9 (Loss)/profit, earnings per share and net asset value per share

(Loss)/profit before tax

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

	2009 £000	2008 £000
Loss before tax	**(52,002)**	(26,709)
Profit on disposal investment properties	**(618)**	(48)
Net losses on revaluation of investment and development properties	**64,185**	41,169
Adjusted profit before tax	**11,565**	14,412

Earnings per share

The basic and diluted loss per share of 86·71p (2008 loss: 45·44p) has been calculated on the basis of the weighted average of 59,991,990 Ordinary shares and loss of £52·0m (2008 loss: £27·3m). The adjusted earnings per share has been amended from the basic and diluted earnings per share by the following:

	2009 £000	2008 £000
Earnings	**(52,017)**	(27,261)
Profit on disposal of investment properties	**(618)**	(48)
Net losses on revaluation of investment and development properties	**64,185**	41,169
Deferred tax	**(79)**	17
EPRA adjusted and adjusted earnings	**11,471**	13,877
EPRA diluted earnings per share	**19·12p**	23·13p
Adjusted (and adjusted diluted) earnings per share	**19·12p**	23·13p

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. Options over 105,411 Ordinary shares were granted in the year (2008: 176,628 Ordinary shares) under the 2007 Performance Share Plan. The vesting conditions for these shares have not been met, so they have not been treated as dilutive in these calculations. 56,200 Ordinary shares from the 2007 award have lapsed in the year.

Net asset value per share

The net asset value per share of 266p (2008: 371p) has been calculated on the basis of the number of equity shares in issue of 59,991,990 and net assets of £159·73m (2008: £222·68m). The adjusted net asset value per share has been calculated as follows:

	2009 £000	2008 £000
Equity shareholders' funds	**159,734**	222,680
Valuation of land held as trading properties	**5,178**	5,748
Book value of land held as trading properties	**(965)**	(912)
Mark to market on debt	**(3,875)**	(500)
Deferred tax	**—**	144
	160,072	227,160
EPRA (adjusted) net asset value per share	**267p**	379p

10 Investment and development properties

Group	Investment £000	Development £000	Total £000
At 1 July 2008	234,391	28,600	262,991
Additions	81	2,025	2,106
Capitalised interest	—	360	360
Transfer	6,652	(6,652)	—
Grant	(34)	—	(34)
Disposals	(1,297)	—	(1,297)
Revaluation deficit	(57,184)	(7,278)	(64,462)
At 30 June 2009	182,609	17,055	199,664

The above comprises £188·4m (2008: £248·0m) of freehold and £11·3m (2008: £15·0m) of leasehold properties.

	Freehold £000	Leasehold £000	Total £000
Properties held at valuation:			
Cost	146,550	13,461	160,011
Valuation surplus/(deficit)	41,804	(2,151)	39,653
Valuation	188,354	11,310	199,664

Investment and development properties have been included at market value after having deducted an amount of £0·3m (2008: £0·2m) in respect of lease incentives and letting fees included in trade and other receivables.

The properties are stated at their 30 June 2009 market value and are valued by DTZ Debenham Tie Leung, 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 have recent experience in the relevant location and category of the properties being valued. In their valuation report the valuers have noted, in accordance with Guidance Note 5 of the Standards, that the primary source of evidence for valuations should be recent, comparable market transactions on arms length terms. The current economic climate means that there have been few transactions of the type of property owned by Mucklows. Consequently, there is a greater degree of uncertainty in respect of the figures reported by our valuers. Until the number and consistency of comparable transactions increases, this situation is likely to remain. A reconciliation to the amount included above is set out below.

	£000
DTZ valuation as at 30 June 2009	200,990
Owner-occupied property included in property, plant and equipment	(982)
Lease inducements	(284)
Other adjustments	(60)
Investment and development properties as at 30 June 2009	199,664

Additions to freehold and leasehold properties include capitalised interest of £0·36m (2008: £1·43m). The capitalisation rate used was 4·61% (2008: 6·5%). The total amount of interest capitalised included in freehold and leasehold properties is £5·00m (2008: £4·64m). Properties valued at £97·05m (2008: £107·24m) were subject to a security interest.

Notes to the Accounts continued

11 Tangible fixed assets and owner-occupied property

Group	Freehold £000	Plant and vehicles £000	Total £000
At 1 July 2008	1,221	857	2,078
Revaluation deficit	(239)	—	(239)
At 30 June 2009	982	857	1,839
At 1 July 2008	—	421	421
Charged in year	—	95	95
At 30 June 2009	—	516	516
Net book value			
At 30 June 2009	982	341	1,323
At 30 June 2008	1,221	436	1,657
Properties held at valuation:			
Cost	948	—	948
Valuation surplus	34	—	34
Valuation	982	—	982

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

12 Non-current trade and other receivables

	2009 £000	2008 £000
Mortgages receivable	**315**	332

The figures shown above are after deducting a provision for bad and doubtful debts of £0·1m (2008: £0·1m).

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

The mortgages are receivable on the disposal of the secured properties.

13 Trading properties

	2009 £000	2008 £000
Land stock	**965**	912

14 Trade and other receivables

Group	2009 £000	2008 £000
Falling due in less than one year		
Trade debtors	**1,760**	1,689
Other debtors	**191**	—
Prepayments and accrued income	**2,980**	2,304
	4,931	3,993

Included in prepayments is an amount of £2·8m (2008: £2·1m) relating to lease incentives which are amortised to the lease end. No provision for impairment is held against the lease incentives as the directors expect to recover the value over the life of the relevant leases.

Company	2009 £000	2008 £000
Falling due in less than one year		
Group undertakings	**32,961**	30,219
Prepayments and accrued income	**9**	9
VAT	**8**	—
	32,978	30,228

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

Trade Debtors

No interest is charged on the receivables. An allowance has been made for estimated irrecoverable amounts from rental income of £0·1m (2008: £0·1m). This allowance has been determined by reference to past default experience.

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

Included in the Company's trade receivable balance are debtors with a carrying amount of £0·9m (2008: £0·9m) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of receivables not impaired is 18 days (2008: 17 days).

Ageing of past due but not impaired receivables:

Number of days past due	2009 £000	2008 £000
1–30 days	**860**	873
30–60 days	**1**	6
60–90 days	**1**	1
90 days +	**54**	(15)
Balance at 30 June past due but not impaired	**916**	865
Current	**844**	824
Balance at 30 June	**1,760**	1,689

Notes to the Accounts continued

14 Trade and other receivables continued

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

	2009 £000	2008 £000
At 1 July	**73**	52
Impairment losses recognised	**116**	27
Amounts written off	**(28)**	2
Amounts recovered during the year	**(14)**	(8)
Balance at 30 June	**147**	73

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the tenant base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables:

Number of days past due	2009 £000	2008 £000
1–30 days	**3**	28
30–60 days	**13**	—
60–90 days	**—**	—
90 days +	**155**	58
	171	86

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

15 Cash and cash equivalents

	2009 £000	2008 £000
Cash at bank and in hand	**2,352**	895
Short-term deposits	**—**	1,308
	2,352	2,203

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

16 Trade and other payables

Group	2009 £000	2008 £000
Deferred income in respect of rents and insurances	**4,746**	4,527
Trade and other payables	**2,176**	1,472
Ordinary dividend	**—**	4,818
Accruals	**972**	2,593
	7,894	13,410
Company		
Group undertakings	**225**	3,386
Trade payables	**33**	—
Ordinary dividend	**—**	4,818
Accruals	**266**	281
	524	8,485

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

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

17 Borrowings — bank overdraft

	2009 £000	2008 £000
Bank overdraft (repayable on demand)	**—**	76

The Group's overdraft facility is reviewed annually.

Notes to the Accounts continued

18 Borrowings

Group	2009 £000	2008 £000
11·5% First Mortgage Debenture Stock 2014	**4,203**	4,203
Bank loan	**19,942**	19,936
Revolving credit facility	**15,500**	6,500
675,000 (2008: 675,000) Preference shares of £1 each	**675**	675
	40,320	31,314
Company		
11·5% First Mortgage Debenture Stock 2014	**4,203**	4,203
Revolving credit facility	**15,500**	6,500
675,000 (2008: 675,000) Preference shares of £1 each	**675**	675
	20,378	11,378

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.

In 1999 the Group arranged a £20·0m 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 £15·0m. On 22 March 2007, a further revolving credit of £20·0m was agreed with HSBC Bank plc with expiry in 2012. Of the total £35·0m revolving credit facilities, £15·5m (2008: £6·5m) was utilised at 30 June 2009.

Since the year end, we have agreed terms to renew our facilities with HSBC. The existing facilities will be replaced with a £5·0m overdraft, a £20·0m five year term loan and a £40·0m five year Revolving Credit facility, increasing our HSBC facilities from £45·0m to £65·0m. Full details are provided on page 10.

On 20 May 2008, a loan of £20·0m was agreed with Lloyds TSB Bank plc with expiry on 22 May 2023. Interest at 5·59% is payable quarterly, with repayment of the capital due at the end of the term. The loan is secured against certain freehold and leasehold properties held by a subsidiary company.

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.

19 Deferred tax

Group	1 July 2008 £000	Recognised in income £000	Recognised in equity £000	30 June 2009 £000
Valuation surplus on properties	65	—	(65)	—
Capital allowances	79	(79)	—	—
Total deferred tax	144	(79)	(65)	—

The Group and Company have no unrecognised deferred tax assets or liabilities.

20 Share capital

	2009 £000	2008 £000
Authorised		
Equity		
117,300,000 (2008: 117,300,000) Ordinary shares of 25p each	**29,325**	29,325
Allotted, Called Up and Fully Paid		
Equity		
59,991,990 (2008: 59,991,990) Ordinary shares of 25p each	**14,998**	14,998

Options over 105,411 Ordinary shares were granted in the year. The conditions for vesting are disclosed in the Board Report on Directors' Remuneration on pages 26 to 29. If the vesting conditions are met, the first and second awards are intended to be settled by the issue of new shares.

In addition to the above, the Company has £675,000 (2008: £675,000) at nominal value of £1 Preference shares authorised and in issue, representing 4% (2008: 4%) of the Company's capital. These are classified within non-current borrowings, see note 18.

21 Revaluation reserve

Group	Property revaluation reserve £000	Related deferred tax £000	Total £000
At 1 July 2008	1,121	(66)	1,055
Deficit on development and owner-occupied properties	(516)	66	(450)
At 30 June 2009	605	—	605

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 continued

22 Equity reserves

Group	Share-based payment reserve £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 July 2008	48	11,162	195,417	206,627
Loss for the financial year	—	—	(52,017)	(52,017)
Charge for year	126	—	—	126
Dividends paid	—	—	(10,605)	(10,605)
Cancellation of share options	(65)	—	65	—
At 30 June 2009	109	11,162	132,860	144,131
Company				
At 1 July 2008	48	11,162	179,220	190,430
Loss for the financial year	—	—	(807)	(807)
Charge for year	126	—	—	126
Cancellation of share options	(65)	—	—	(65)
Dividend paid	—	—	(10,605)	(10,605)
At 30 June 2009	109	11,162	167,808	179,079

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

23 Reconciliation of movements in equity

Group	2009 £000	2008 £000
Opening net assets	**222,680**	259,292
Total recognised income and expense	**(52,402)**	(27,019)
Shares to be issued	**61**	48
Dividends	**(10,605)**	(9,641)
Closing net assets	**159,734**	222,680
Company		
Opening net assets	**205,428**	80,876
Total recognised income and expense	**(807)**	134,145
Shares to be issued	**61**	48
Dividends	**(10,605)**	(9,641)
Closing net assets	**194,077**	205,428

24 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued Ordinary share capital, reserves and retained earnings as disclosed in notes 22 and 23.

Gearing ratio

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

	2009	2008
	%	%
Net debt to equity	**24**	13

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

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on Real Estate Investment Trusts.

Significant accounting policies

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

The Group's principal financial assets are bank balances and cash disclosed in note 15, trade and other receivables disclosed in note 14 and mortgages disclosed in note 12. The Group's principal financial liabilities are debenture loans, bank borrowings, Preference share capital and overdrafts as disclosed in notes 17 and 18.

Financial risk management objectives

The Group seeks to minimise the effects of market risk (including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk by using a combination of fixed and floating rate debt instruments with varying maturity profiles. 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, other than to hedge the revised banking facilities.

Market risk

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

Notes to the Accounts continued

24 Financial instruments continued

Interest rate risk management

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

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

Interest rate sensitivity analysis

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

If interest rates had been 0·5% higher and all other variables were constant, the Group's loss for the year would increase by £0·08m (2008: loss increase by £0·03m), mainly attributable to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments, with long-term fixed rate debt remaining constant.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are highly rated. The Group's exposure and the credit ratings of its counterparties are monitored and the transactions concluded are spread amongst approved counterparties.

The maximum credit risk on financial assets at 30 June 2009 is £7·4m (2008: £6·3m).

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 Group has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Concentration of credit did not exceed 3% of annual rent to any one tenant at any time during the year.

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities. Included below is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

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

24 **Financial instruments** continued

	Weighted average effective interest rate %	Less than one Month £000	1–3 months £000	3 months to 1 year £000	1–5 Years £000	5+ Years £000	Total £000
2009							
Variable interest rate instruments	**1·25**	**7**	**—**	**—**	**15,500**	**—**	**15,507**
Fixed interest rate instruments	**6·63**	**242**	**282**	**1,102**	**6,600**	**34,478**	**42,704**
		249	**282**	**1,102**	**22,100**	**34,478**	**58,211**
2008							
Variable interest rate instruments	5·82	88	—	—	6,500	—	6,588
Fixed interest rate instruments	6·64	266	276	1,098	6,600	36,298	44,538
		354	276	1,098	13,100	36,298	51,126

The interest payable on the revolving credit facility, which is included in the variable rate instruments above, is included as payable within one month as monies are drawn down on a monthly basis. The principal is included when the facility is due to expire.

As the preference shares carry no right to redemption, no repayment of principal has been included in the figures. Interest payments for ten years have been included in both of the above tables.

The Group's policy for financing the business is mainly through the use of fixed rate long-term loans to manage interest rate risk. In May 2008 the Group borrowed £20·0m from Lloyds TSB Bank plc for 15 years at a fixed rate of interest.

The Group had undrawn revolving credit facilities of £19·5m at 30 June 2009 (2008: £28·5m), which expire in 2010 and 2012. The Group has a £10·0m overdraft facility which expires in less than one year. £10·0m of this facility was undrawn as at 30 June 2009 (2008: £10·0m was undrawn). The Group has a fully drawn £20·0m fixed rate loan facility which expires in 2023 (2008: £20·0m).

The fair values of financial liabilities are disclosed below, except for the fair value information on available for sale financial assets, cash and cash equivalents and short-term receivables and payables which is given in notes 12, 14, 15 and 16.

Notes to the Accounts continued

24 Financial instruments continued

Fair values As at 30 June 2009	Book value £000	Fair value £000	Fair value adjustment £000	% of book value
11·5% First Mortgage Debenture Stock 2014	**4,203**	**5,867**	**1,664**	**40**
Bank loan	**19,942**	**22,180**	**2,238**	**11**
Revolving credit facility	**15,500**	**15,500**	**—**	**—**
Preference shares	**675**	**648**	**(27)**	**(4)**
Net debt and Preference share capital	**40,320**	**44,195**	**3,875**	**10**
Fair values As at 30 June 2008				
11·5% First Mortgage Debenture Stock 2014	4,203	5,447	1,244	30
Bank loan	19,936	19,219	(717)	(4)
Revolving credit facility	6,500	6,500	—	—
Overdraft	76	76	—	—
Preference shares	675	648	(27)	(4)
Net debt and Preference share capital	31,390	31,890	500	2

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 2009 and 30 June 2008 respectively. The fair value of the bank loan has been externally valued by discounting expected cash flows at prevailing interest rates at the year end. The fair value of the revolving credit 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 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.

Group	2009 £000	2008 £000
Sterling financial assets:		
Floating rate (not hedged)	**29**	1,337
Fixed rate	**74**	70
Non-interest bearing	**212**	234
	315	1,641
Company		
Sterling financial assets:		
Floating rate (not hedged)	**—**	8

Financial assets are cash at bank and in hand, short-term deposits and mortgages receivable. At 30 June 2008 £1·3m was invested on the money market overnight at 3·68%. There were no money market deposits at 30 June 2009. Cash at bank is at floating rate based on base rate.

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

25 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.

26 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:

Group	2009 £000	2008 £000
Not later than one year	**15,759**	14,959
Later than one year but not later than five years	**43,828**	45,816
Later than five years	**32,121**	33,148
	91,708	93,923

The Group as lessor

Property rental income earned during the year was £16·6m (2008: £15·8m). Direct operating expenses arising on the investment property in the period amounted to £0·7m (2008: £0·6m). None of the Group's properties held for rental purposes has been disposed of since the year end. No one tenant accounts for more than 3% of annual passing rent. Lease terms vary depending upon the property use and the lease length, but no tenant has the option to purchase a property at the end of their lease.

27 Commitments

Group	2009 £000	2008 £000
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	**1,809**	1,585

The Group entered into a pre-let development agreement on its Torrington Avenue, Coventry site which became unconditional after the Group's year end. The estimated cost to complete the unit is £9·0m.

Notes to the Accounts continued

28 Related party transactions

Company	£000
As at 1 July 2008	186,902
Capital contributions to subsidiaries	25,480
Impairment	(29,587)
As at 30 June 2009	182,795

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

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

The Company undertakes the following transactions with its active subsidiaries:

- Providing day-to-day funding; and
- Receiving dividends, net of capital contributions provided, of £2·9m (2008: providing capital contributions, net of dividends received, of £34·2m).

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	2009 £000	2008 £000
Short-term employee benefit	**1,247**	1,154
Post-employment benefits	**106**	133
Share-based payment	**11**	29
	1,364	1,316

There have been no related party transactions with directors.

29 Share-based payments

Equity-settled share option scheme

The Group has a share option scheme for certain employees of the Group. The vesting period is 3 years, except for the transitional award to Justin Parker, which has a vesting period of 18 months. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

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

	2009		2008	
	Number of share options	**Exercise price in p**	Number of share options	Exercise price in p
Outstanding at 1 July 2008	**176,628**	**25**	—	—
Granted during the year	**105,411**	**25**	176,628	25
Lapsed during the year	**(56,200)**	**—**	—	—
Outstanding at 30 June 2009	**225,839**	**—**	176,628	—
Exercisable at 30 June 2009	**—**	**—**	—	—

The aggregate of the estimated fair values of the options granted during the year is £0·2m (2008: £0.2m).

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

	2009	2008
Share price at valuation date	**257p**	280p
Exercise price	**25p**	25p
Expected volatility	**47%**	32%
Risk-free rate	**4·21%**	4·69%
Expected dividend yield	**5·79%**	4·61%

Expected volatility was determined by calculating the historical volatility of the Group's share price over a term commensurate with the expected life of each option.

The Group recognised total expenses of £0·1m (2008: £0·1m) related to equity-settled share-based payment transactions in the financial year ended 30 June 2009.

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

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

Trading

A & J Mucklow & Co Limited

Shareholder Information
for the year ended 30 June 2009

Five year record

	IFRS				
	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Revenue					
Gross rental income	**16,574**	15,772	14,285	14,351	16,045
Net rental income	**15,885**	15,181	13,537	13,610	15,708
Other income	**71**	2,553	10,158	2,254	1,162
Profit on disposal of investment properties	**618**	48	2,247	707	1,096
Operating (loss)/profit	**(50,609)**	(26,165)	39,268	37,909	27,352
(Loss)/profit before taxation	**(52,002)**	(26,709)	33,369	36,434	9,444
Capital					
Net assets	**159,734**	222,680	259,292	215,672	193,134
Property portfolio	**200,646**	264,212	288,077	258,557	228,045
Per Ordinary Share					
Earnings	**(86·71)p**	(45·44)p	86·62p	45·24p	16·68p
Ordinary dividend*	**17·68p**	17·68p	14·73p	13·71p	12·76p
Net asset value†	**266p**	371p	432p	360p	322p

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

Investor Relations

Annual General Meeting
The Group's Annual General Meeting will be held on Tuesday 10 November at 11·30 a.m. at the Birmingham Botanical Gardens, Westbourne Road, Edgbaston, Birmingham B15 3TR.

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

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

Environmental matters
This document has been produced on coated paper 350gm² and 170gm² with 50% recovered fibre and 50% total chlorine free pulp from sustainable sources.

Financial Calendar 2009/10

Annual General Meeting	10 November 2009
Results announced	
For the half year to 31 December 2009	February 2010
For the year to 30 June 2010	September 2010
Ordinary dividends	
Final for 2008/2009 — announce	9 September 2009
— pay	4 January 2010
Interim for 2009/2010 — announce	February 2010
— pay	June 2010

Glossary

Adjusted earnings per share (EPS) are EPRA earnings per share including the premium on redemption of debenture stock excluding tax thereon.

Adjusted net asset value per share is EPRA net asset value, excluding deferred tax and including the surplus on trading properties and the mark to market of debt.

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

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

BREEAM is the European Building Research Establishment Environmental Assessment Method.

Company is A & J Mucklow Group plc.

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

Development properties are properties held for development purposes and are shown as tangible fixed assets in the balance sheet.

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

EPRA is the European Public Real Estate Association.

EPRA earnings are the profit/(loss) after taxation excluding investment property revaluations and gains/(losses) on disposals, REIT conversion costs and their related taxation whether deferred or otherwise.

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

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

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

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

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

IFRS is International Financial Reporting Standards.

Interest cover is the number of times net interest payable is covered by underlying profit before net interest payable and taxation.

Glossary continued

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

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

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

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

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

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

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

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

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

Property Income Distribution (PID). As a REIT the Group is now obliged to distribute 90% of the tax-exempt profits. These dividends, which are referred to as PIDs, are subject to withholding tax at the basic rate of income tax. Certain classes of shareholders may qualify to receive the dividend gross. See our website (www.mucklow.com) for details. The Group can also make other (normal) dividend payments which are taxed in the usual way.

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

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

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

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

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

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

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

UK REIT Performance Since Launch

1 January 2007 — 30 June 2009

UK Equity market — FTSE All Share Index	-33·5%
UK Commercial Property — IPD Capital Values	-43·2%
Listed Real Estate Sector — FTSE UK Property Index	-73·6%

Company	Total Shareholder return
1. A & J Mucklow Group plc	-43·9%
2. Highcroft Investments plc	-46·1%
3. Primary Health Properties plc	-46·8%
4. Shaftsbury plc	-47·0%
5. Big Yellow Group plc	-49·7%
6. Derwent London plc	-53·2%
7. Great Portland Estate plc	-53·8%
REIT sector average	**-66·1%**
8. Liberty International plc	-67·9%
9. Hammerson plc	-68·6%
10. McKay Securities plc	-68·9%
11. British Land Company plc	-69·9%
12 Land Securities Group plc	-74·0%
13. Segro plc	-75·2%
14. Town Centre Securities plc	-76·7%
15. Brixton plc	-92·2%
16. Warner Estate Holdings plc	-94·3%
17. Workspace Group plc	-96·0%

Source: Thomson One Banker/Investment Property Databank Limited

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