717658.

A&J MUCKLOW

GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2001

MANAGEMENT AND PROFESSIONAL ADVISERS

Directors

Albert J Mucklow ACIS
Chairman
Aged 65. Joined the Group in 1956.
Appointed Chairman in 1976.

Rupert J Mucklow BSc
Managing Director
Aged 38. Joined the Group in 1990.
Appointed executive director in 1995, Managing Director in 1996 and Deputy Chairman 11 September 2001.

Peter M Petherbridge
Executive
Aged 54. The Group's solicitor from 1972.
Appointed non-executive director 1990 and executive director 10 July 2001.

David F Austin FRICS
Senior Independent Non-executive†*
Aged 62. Appointed to the Board in 1995.
A chartered surveyor and former joint senior partner of Bucknall Austin. He is Chairman of the Audit and Remuneration Committees.

David C Groom FCIB
Independent Non-executive†*
Aged 62. Appointed to the Board in 1996.
A former regional area manager of Midland Bank in Birmingham.

Allan J Mucklow
Non-executive†*
Aged 66. Joined the Group in 1957.
Appointed non-executive director in 1977.

* Member of Remuneration Committee
† Member of Audit Committee

Company Secretary

Derick Bromley ACIS

Senior Management

Stephen N Murphy BSc FRICS
Development
M David Folkes MCIOB
Residential Land/Development
David Rampling
Estate Management/Property Leasing
David Wooldridge ACCA ACIS
Group Accountant/Assistant Secretary

Auditors

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

Stockbrokers

UBS Warburg
1 Finsbury Avenue
London EC2M 2PP
Old Mutual Securities
Temple Court
35 Bull Street
Birmingham B4 6ES

Bankers

HSBC Bank plc
The Bridge
Walsall
West Midlands WS1 1LN

Merchant Bankers

UBS Warburg
2 Finsbury Avenue
London EC2M 2PP

Property Valuers

DTZ Debenham Tie Leung
10 Colmore Row
Birmingham B3 2QD

Registrars

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

Registered Office

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

Telephone: (0121) 550 1841
Facsimile: (0121) 550 7532
Website: www.mucklow.com
Company No. 717658

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 30 June 2001.

Results

The profit earned and the dividends paid and proposed are set out in detail in the consolidated profit and loss account and notes. The net profit before taxation for the year was £11,894,434 and the taxation charge was £2,571,345.

Review of business

The Group's activities are reviewed on pages 4 to 11.

Ordinary dividends

On 29 June 2001, an interim dividend of 4·3495p per share was paid. A final dividend of 5·2194p per share is proposed. The total dividend for the year will be 9·5689p per share.

The final dividend, if confirmed, will be paid on 2 January 2002 to shareholders on the register at the close of business on 30 November 2001.

Share capital

The Company purchased on the open market a total of 11,274,068 of its own Ordinary shares for cancellation, during the year under review, at an average price of 184p per share. Since the year end, the Company has purchased for cancellation a further 200,000 Ordinary shares at 196p per share on 10 July 2001 and 469,000 at 195p per share on 12 September 2001.

Employee share ownership scheme

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

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

During the year, employees of the Company (including two executive directors — see note 6) were awarded 33,868 shares with a value of £60,085.

Future prospects

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

Principal activities

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

Creditors payment policy

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

The average number of creditor days for the Group was 41 (2000: 31). The creditor days figure is significantly affected by property acquisitions and similar transactions. The Company has no trade creditors.

Euro

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

Environmental policy

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

There are two main elements to the policy. Firstly, an independent environmental report is required for all potential acquisitions, which considers, amongst other matters, the historic and current usage of the site and the extent of any contamination present.

The second element of the policy is to maintain an ongoing examination of the business activities of existing and new tenants to prevent pollution risks occurring. The Group monitors all incoming tenants through its insurance programme to identify potential risk, and high-risk business activities are avoided. As part of the active management of the portfolio any change in tenant business practice which might be considered to be an environmental hazard is reported and suitably dealt with.

Donations

No political contributions were made during the year and donations to charities amounted to £1,267 (2000: £1,925).

Directors

The present Board is as shown on page 15 and all directors were in office throughout the year.

David F Austin, Senior independent non-executive director, and Peter M Petherbridge, executive director, retire by rotation and, being eligible, offer themselves for re-election.

The three executive directors, Albert J Mucklow, Rupert J Mucklow and Peter M Petherbridge, have one-year rolling service contracts with the Group. Non-executive directors do not have service contracts.

Directors' shareholdings

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

	Ordinary shares at 30 June 2001	Ordinary shares at 30 June 2000
Albert J Mucklow	3,549,213 (a)	3,552,784 (a)
Rupert J Mucklow	994,555	983,717
Peter M Petherbridge	2,312,168 (b)	2,612,168 (b)
David F Austin	9,330	9,330
David C Groom	3,000	3,000
Allan J Mucklow	4,012,799	4,012,799

The holdings marked (a) and (b) included non-beneficial interests in 2,806,994 (2000: 2,806,994) and 2,298,402 (2000: 2,598,402) Ordinary shares respectively.

There were no other movements in any of the directors' shareholdings between 1 July 2001 and 12 September 2001.

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stock at either 30 June 2001 or 12 September 2001.

Directors' and officers' liability insurance

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

DIRECTORS' REPORT

Substantial shareholdings

The following shareholders have notified the Company of an interest of 3% or more in the Ordinary share capital of the Company as at 30 June 2001.

	Number	%
Prudential Corporation plc	3,790,500	6·12
Wesleyan Assurance Society	2,820,000	4·54
Framlington Investment Management Limited	2,000,000	3·22
Mrs M A Hickman *	2,769,884	4·46
HSBC Bank (Nominees) A/C 10052601 *	2,427,156	3·92
HSBC Bank (Nominees) A/C 10144801 *	2,336,993	3·77

* The families of Albert J Mucklow (Chairman); Allan J Mucklow (non-executive director and brother of the Chairman); Margaret A Hickman (sister of the Chairman) and Peter M Petherbridge (executive director) collectively have an interest in 27,106,371 Ordinary shares (43.7% of the issued Share Capital) and are deemed by the Panel on Takeovers and Mergers to form a 'Concert Party'. These shares are included within the 'Concert Party' holding.

Properties

A professional review of the value of the Group's industrial and commercial properties was carried out by DTZ Debenham Tie Leung at 30 June 2001.

This revaluation has been incorporated in the accounts resulting in an increase of £5·922m in the revaluation reserve.

Going concern

After making enquiries, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Close company provisions

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

Auditors

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

By order of the Board

Derick Bromley

Secretary

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

24 September 2001

STATEMENT OF CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

Directors' remuneration
The Remuneration Committee, under the chairmanship of David F Austin, measures the performance of the executive directors and key members of senior management before recommending their annual remuneration. The committee consults the Chairman and Managing Director about its proposals and has access to professional advice from inside and outside the organisation.

The Report of the Board to the shareholders on Directors' Remuneration is set out on page 21.

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

Accountability and audit
Financial reporting
Detailed reviews of the performance and financial position are included in the Chairman's statement on pages 2 and 3 and the Managing Director's review on pages 4 to 11 to present a balanced and understandable assessment of the Group's position and prospects. The directors' responsibilities for the accounts are described on page 22.

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

During the year, the Board introduced an ongoing process for identifying, evaluating and managing the Group's significant risks. This process has remained in place to the date of approval of the report and accounts. An internal control meeting will be held twice yearly, with events reported to the monthly Board Meeting where appropriate. Prior to February 2001, procedures were implemented to meet the requirements of the internal control system.

The Board will regularly review the significant risks and reporting and monitoring procedures, to enable it to assess effectiveness. The first review took place in February 2001, when some minor improvements were made. Internal financial controls have been specifically reviewed.

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 will be 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 financial control for the financial year and the period to the date of approval of the financial statements. The key control procedures are described under the following six headings.

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

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

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

4. **Computer systems**
The Group is reliant on an effective computer system to operate its business. The system that it uses is both modern and simple, being a file server based network which operates 17 PCs. The principal operating software is provided by Estate Computer Systems, a leading supplier of generic software to the property management industry. It is fully integrated which provides comfort on the integrity of data transfer between the accounts and property management suites. The Group has a contingency plan in place to cater for complete loss or failure of its own data processing facility and has taken the necessary steps to ensure the security of data on the network.

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

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.

Exceptions to Compliance with Combined Code

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Except for the items outlined below, the Company has complied throughout the accounting period ended 30 June 2001 with the provisions set out in Section 1 of the Code. The exceptions are:

Code Provisions

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

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

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

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

BOARD REPORT ON DIRECTORS' REMUNERATION

Remuneration Committee

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

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

Executive directors' remuneration

The main components of the executive directors' remuneration are:

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

Albert J Mucklow has arranged his own pension provision, towards which the Group makes no contributions. Peter M Petherbridge will receive a contribution towards his own personal pension plan.

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

Service contracts

The three executive directors, Albert J Mucklow, Rupert J Mucklow and Peter M Petherbridge, have service contracts, which have a one-year rolling term.

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

Pensions

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

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

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

David F Austin

24 September 2001

D. F. Austin

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

(c) followed applicable accounting standards.

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

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 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement and statement of total recognised gains and losses, together with the notes to the cash flow statement, reconciliation of movements in shareholders' funds, note of historical cost profits and losses, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
and Registered Auditors
24 September 2001

Colmore Gate, 2 Colmore Row
Birmingham, B3 2BN

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2001

	Notes	2001 £000	2000 £000
Rental income		**19,960**	19,980
Operating expenses		**(2,026)**	(2,089)
Other income		**1,099**	1,217
Operating profit	2 & 3	**19,033**	19,108
Profit on disposal of investment properties		**114**	672
Profit on ordinary activities before interest		**19,147**	19,780
Other interest receivable and similar income	4	**151**	1,360
Interest payable and similar charges.	5	**(7,404)**	(7,614)
Profit on ordinary activities before taxation		**11,894**	13,526
Taxation	7	**(2,571)**	(2,976)
Profit for the financial year		**9,323**	10,550
Dividends (including non-equity dividends)	8	**(5,951)**	(6,167)
Retained profit for the financial year	16	**3,372**	4,383
Basic and diluted earnings per share	9	**13·73p**	12·33p
Pre-exceptional earnings per share	9	**13·56p**	11·54p

All the above amounts are derived from continuing operations.

The notes attached are an integral part of the accounts.

CONSOLIDATED BALANCE SHEET

at 30 June 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Tangible	10	**262,154**	264,458
Current assets			
Trading properties	11	**1,486**	1,767
Debtors — due within one year	12	**1,533**	970
— due after more than one year	12	**562**	609
Cash at bank and in hand		**1,780**	8,333
		5,361	11,679
Creditors: Amounts falling due within one year	13	**(17,824)**	(24,826)
Net current liabilities		**(12,463)**	(13,147)
Total assets less current liabilities		**249,691**	251,311
Creditors: Amounts falling due after more than one year	14	**(70,000)**	(60,000)
		179,691	191,311
Capital and reserves			
Non-equity share capital	15	**675**	675
Equity share capital	15	**15,497**	18,315
Revaluation reserve	16	**98,766**	94,724
Capital redemption reserve	16	**10,663**	7,845
Profit and loss account	16	**54,090**	69,752
Shareholders' funds		**179,691**	191,311
Attributable to equity shareholders		**179,016**	190,636
Attributable to non-equity shareholders		**675**	675
		179,691	191,311

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 24 September 2001

The notes attached are an integral part of the accounts.

PARENT COMPANY BALANCE SHEET

at 30 June 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Tangible	10	**875**	875
Investments	18	**9,163**	9,163
		10,038	10,038
Current assets			
Debtors — due within one year	12	**116,166**	123,114
Creditors: Amounts falling due within one year	13	**(6,776)**	(12,015)
Net current assets		**109,390**	111,099
Total assets less current liabilities		**119,428**	121,137
Creditors: Amounts falling due after more than one year	14	**(70,000)**	(60,000)
		49,428	61,137
Capital and reserves			
Non-equity share capital	15	**675**	675
Equity share capital	15	**15,497**	18,315
Revaluation reserve	16	**851**	851
Capital redemption reserve	16	**10,663**	7,845
Profit and loss account	16	**21,742**	33,451
Shareholders' funds		**49,428**	61,137
Attributable to equity shareholders		**48,753**	60,462
Attributable to non-equity shareholders		**675**	675
		49,428	61,137

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 24 September 2001

The notes attached are an integral part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2001

	Notes	2001 £000	2000 £000
Cash flow from operating activities	1	**19,051**	19,580
Returns on investments and servicing of finance			
Interest received		**113**	1,141
Interest paid		**(7,537)**	(7,675)
Non-equity dividends paid		**(47)**	(47)
		(7,471)	(6,581)
Taxation			
Corporation tax paid		**(4,172)**	(3,080)
Corporation tax refunded		**90**	106
		(4,082)	(2,974)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(6,043)**	(4,889)
Grants repaid		**(56)**	—
Sales of tangible fixed assets		**13,891**	13,551
		7,792	8,662
Equity dividends paid		**(6,010)**	(10,240)
Cash inflow before financing		**9,280**	8,447
Financing			
Market purchases of equity share capital		**(20,833)**	(32,445)
Revolving credit facility		**10,000**	(8,500)
Repayment of debenture		**(5,000)**	—
		(15,833)	(40,945)
Decrease in cash in the period	2	**(6,553)**	(32,498)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1 Reconciliation of operating profit to cash flow from operating activities

	2001 £000	2000 £000
Operating profit	**19,033**	19,108
Depreciation	**93**	98
(Profit)/loss on sale of fixed assets	**(12)**	7
Decrease in stocks	**281**	281
(Increase)/decrease in debtors	**(514)**	346
Increase/(decrease) in creditors	**170**	(260)
	19,051	19,580

2 Reconciliation of movement in cash to movement in net debt

	2001 £000	2000 £000
Decrease in cash in the period	**(6,553)**	(32,498)
(Increase)/decrease in borrowing in the period	**(5,000)**	8,500
Net debt as at 1 July	**(56,667)**	(32,669)
Net debt as at 30 June	**(68,220)**	(56,667)

3 Analysis of net debt

	1 July 2000 £000	Movement £000	30 June 2001 £000
Cash	8,333	**(6,553)**	**1,780**
Revolving credit facility	—	**(10,000)**	**(10,000)**
Debentures due within one year	(5,000)	**5,000**	**—**
Debentures due after one year	(60,000)	**—**	**(60,000)**
	(56,667)	**(11,553)**	**(68,220)**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £000	2000 £000
Profit for the financial year	**9,323**	10,550
Unrealised surplus on revaluation of properties	**5,922**	5,943
Taxation on realised property revaluation gains	**(68)**	(904)
Total gains and losses for the financial year	**15,177**	15,589

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2001 £000	2000 £000
Reported profit on ordinary activities before taxation	**11,894**	13,526
Realisation of property revaluation gains of previous years	**1,880**	7,550
Historical cost profit on ordinary activities before taxation	**13,774**	21,076
Historical cost profit for the year retained after taxation and dividends	**5,184**	11,029

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Profit for the financial year	**9,323**	10,550
Dividends	**(5,951)**	(6,167)
Retained profit for the financial year	**3,372**	4,383
Unrealised surplus on revaluation of properties	**5,922**	5,943
Taxation on realised revaluation gains	**(68)**	(904)
Market purchases of equity share capital	**(20,846)**	(32,445)
Net decrease in shareholders' funds	**(11,620)**	(23,023)
Shareholders' funds at 1 July	**191,311**	214,334
Shareholders' funds at 30 June	**179,691**	191,311

NOTES TO THE ACCOUNTS

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with all applicable accounting standards, except that, as explained below, capital grants received relating to investment properties are deducted from the cost of properties, rather than being amortised to the profit and loss account. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, investment properties are not depreciated. Since the preparation of the financial statements for the previous year end the Group has adopted Financial Reporting Standards up to and including FRS 18. The adoption of these standards has not had any effect on current or prior years.

Basis of consolidation

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

Rental income

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

Profits on sale of investment and trading properties

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

Cost of properties

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

Valuation of properties

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

Depreciation

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

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

Government grants

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

Deferred taxation

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

Taxation

The tax liability on the realised element of the revaluation reserve resulting from the disposal of investment properties is charged to reserves.

Pension costs

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

Acquisitions

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

Goodwill is amortised on a straight line basis over the estimated useful life of the acquisition. A maximum life of 20 years will be used. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period. Under the Group's previous policy £134,728 of goodwill has been written off to the profit and loss account as a matter of accounting policy. This would be credited to the profit and loss account on disposal of the business to which it related.

2 Rental income and other income and operating profit

	2001 £000	2000 £000
(a) Operating profit		
Gross rental income	**19,960**	19,980
Property outgoings	**(52)**	(134)
Net rental income	**19,908**	19,846
Sale of trading properties	**1,385**	1,600
Cost of sales of trading properties	**(286)**	(383)
Other income	**1,099**	1,217
Administration expenses	**(1,974)**	(1,955)
Operating profit	**19,033**	19,108

	2001 £000	2000 £000
(b) Profit on ordinary activities before taxation is stated after charging the following:		
Operating leases — land and buildings	**43**	43
Depreciation	**93**	98
(Profit)/loss on sale of fixed assets	**(12)**	7
Auditors' remuneration:		
Audit	**27**	25
Other services	**11**	60

The Company's audit fee was £5,000 (2000: £5,000).

NOTES TO THE ACCOUNTS

3 Segmental analysis

	Rental income and other income		Operating profit		Net assets	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Investment properties	**19,960**	19,980	**19,908**	19,846	**172,605**	184,544
Trading properties	**1,385**	1,600	**1,099**	1,217	**1,486**	1,767
Administration	—	—	**(1,974)**	(1,955)	—	—
	21,345	21,580	**19,033**	19,108	**174,091**	186,311
Short-term investments					**5,600**	5,000
Net assets per balance sheet					**179,691**	191,311

4 Other interest receivable and similar income

	2001 £000	**2000 £000**
Interest on short-term deposits and investments	**96**	1,304
Mortgage interest	**38**	35
Other	**17**	21
	151	1,360

5 Interest payable and similar charges

Debenture stocks	**7,065**	7,562
Bank loans and overdrafts	**454**	52
	7,519	7,614
The total has been allocated as follows:		
charged to revenue	**7,404**	7,614
capitalised to cost of properties in the course of development	**115**	—
	7,519	7,614

Interest has been capitalised at the average rate applicable to the Group's revolving credit facility, 6·41%.

6 Information regarding directors and employees

	2001 £000	2000 £000
(a) Directors' emoluments including pension contributions		
Fees	68	63
Management remuneration and taxable benefits	380	321
Share Ownership Scheme	16	16
Pension contributions	25	17
	489	417

	Basic salary £000	Fees £000	Benefits in kind £000	Pension £000	Share scheme £000	Total 2001 £000	Total 2000 £000
Executive							
Albert J Mucklow (highest paid director)	198	17	18	—	8	241	228
Rupert J Mucklow	140	—	16	25	8	189	135
Non-Executive							
David F Austin	—	17	—	—	—	17	16
David C Groom	—	17	—	—	—	17	16
Allan J Mucklow	—	17	3	—	—	20	18
Peter M Petherbridge	—	—	5	—	—	5	4
	338	68	42	25	16	489	417

Notes:

i) There were no profit related salary payments.

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

iii) One director (2000: one director) was a member of a defined contribution pension scheme.

iv) During the last three years the Group operated an all employee share ownership scheme. The two executive directors each received the maximum entitlement under the Inland Revenue approved scheme of £8,000 (2000: £8,000) worth of shares in the Company. Non-executive directors are not eligible for the scheme.

v) Peter M Petherbridge is the sole proprietor of P M Petherbridge & Co., which provided legal services to the Group during the year and received fees amounting to £189,921 (2000: £175,820). At 30 June 2001 P M Petherbridge & Co. were holding £100,623 relating to retentions and deposits (2000: £149,024). Peter M Petherbridge was appointed a full-time executive director of the Company on 10 July 2001.

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

vi) There are no share option schemes.

6 Information regarding directors and employees (continued)

	2001 Number	2000 Number
(b) Staff numbers and costs		
The average number of persons employed by the Group (including directors) during the year was as follows:		
Management	**6**	6
Administration	**6**	6
Property	**8**	8
Total employees	**20**	20

The aggregate payroll costs (including directors) were as follows:	£000	£000
Wages and salaries	**847**	818
Social security costs	**102**	94
Pension costs	**82**	78
	1,031	990

(c) Pension arrangements

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

Pension contributions (including directors) paid in the year ended 30 June 2001 amounted to £81,723 (2000: £78,340).

7 Taxation

	2001 £000	2000 £000
Taxation based on profit for the year:		
Corporation tax at a rate of 30%	**2,702**	3,149
Adjustment in respect of prior year	**(131)**	(173)
	2,571	2,976

The difference between the effective tax rate and the statutory tax rate of 30% is due to the availability of capital allowances on buildings which are not depreciated. Tax of £25,000 (2000: £103,000) has been charged to the profit and loss account in respect of the exceptional profit on disposal of investment properties. In addition, £68,000 (2000: £904,000) has been charged directly to reserves in respect of the tax liability on the realised element of the revaluation reserve.

8 Dividends

	2001 £000	2000 £000
On 7% (formerly 4·9% net) Cumulative Preference non-equity shares	**47**	47
On Ordinary equity shares		
Interim of 4·3495p per share (2000: 4·0461p)	**2,755**	2,978
Proposed final of 5·2194p per share (2000: 4·6529p)	**3,224**	3,330
Overprovision for last year	**(75)**	(188)
	5,951	6,167

9 Earnings per share

Calculated on the basis of the weighted average of 67,544,719 (2000: 85,212,798) Ordinary shares and earnings, net of preference dividend, of £9,275,838 (2000: £10,503,161). The pre-exceptional earnings per share has been adjusted from the basic and diluted earnings per share by the profit on sale of investment properties of £113,675 (2000: £672,137).There are no dilutive shares.

10 Tangible fixed assets

(a) Group	Freehold £000	Leasehold £000	Plant and vehicles £000	Total £000
At 1 July 2000				
At valuation	240,595	23,715	—	264,310
At cost	—	—	828	828
Additions	5,453	—	179	5,632
Disposals	(13,700)	—	(176)	(13,876)
Revaluation surplus/(deficit)	6,367	(445)	—	5,922
At 30 June 2001	**238,715**	**23,270**	**831**	**262,816**
Depreciation:				
At 1 July 2000	—	—	680	680
Charged in year	—	—	93	93
Disposals	—	—	(111)	(111)
At 30 June 2001	—	—	**662**	**662**
Net book value comprises:				
At valuation	238,715	23,270	—	261,985
At cost	—	—	169	169
At 30 June 2001	**238,715**	**23,270**	**169**	**262,154**
At 30 June 2000	240,595	23,715	148	264,458

The values of freehold and leasehold properties were revalued at 30 June 2001 on an open market basis by DTZ Debenham Tie Leung, Chartered Surveyors.

Additions to freehold properties include capitalised interest of £115,169 (2000: £Nil). The total amount of interest capitalised included in freehold and leasehold properties is £4,711,952 (2000: £4,596,783).

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

	2001 £000	2000 £000
Freehold	**142,327**	148.694
Leasehold	**15,556**	15,556
	157,883	164,250

(b) Company	Freehold £000
At valuation 1 July 2000	875
Revaluation surplus	—
At valuation 30 June 2001	875

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

11 Trading properties

	2001 £000	2000 £000
Land stock	**1,486**	1,767

12 Debtors

	2001		2000	
	Group £000	Company £000	Group £000	Company £000
Falling due within one year				
Trade debtors	**1,116**	—	613	—
Group undertakings	—	**112,814**	—	119,736
Corporation tax paid on behalf of Group companies	—	**3,352**	—	1,100
Group relief receivable	—	—	—	2,278
Prepayments and accrued income	**417**	—	357	—
	1,533	**116,166**	970	123,114
Falling due after more than one year				
Mortgages receivable	**562**	—	609	—
	2,095	**116,166**	1,579	123,114

The mortgages are receivable on disposal of the secured properties.

13 Creditors: Amounts falling due within one year

	2001		2000	
	Group £000	Company £000	Group £000	Company £000
Deferred income in respect of rents and insurances	**4,641**	—	4,455	—
Trade creditors	**2,196**	—	2,341	7
Corporation tax	**2,988**	—	4,431	—
Accruals and deferred income	**4,581**	**3,552**	4,969	3,678
Other creditors	**194**	—	300	—
Proposed dividends	**3,224**	**3,224**	3,330	3,330
13¼% First Mortgage Debenture Stock	—	—	5,000	5,000
	17,824	**6,776**	24,826	12,015

14 Creditors: Amounts falling due after more than one year

	Group and Company 2001 £000	2000 £000
Revolving credit facility	10,000	—
11½% First Mortgage Debenture Stock 2014	60,000	60,000
	70,000	60,000

In 1999, the Group arranged a £20 million five year revolving credit facility with HSBC Bank plc. Security has been given over certain freehold properties held by the Group.

On 19 June 2000, the revolving credit was reduced to £15 million and the Group's overdraft limit increased from £5 million to £10 million. The Group's overdraft facility is reviewed annually.

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

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

15 Share capital

	2001 £000	2000 £000
Authorised		
Equity		
117,300,000 Ordinary shares of 25p each	**29,325**	29,325
Non-Equity		
675,000 Preference Shares of £1 each	**675**	675
Allotted, Called Up and Fully Paid		
Equity		
61,985,990 (2000: 73,260,058)		
Ordinary shares of 25p each	**15,497**	18,315
Non-Equity		
675,000 Preference Shares of £1 each	**675**	675

The Company purchased on the open market a total of 11,274,068 of its own Ordinary shares for cancellation at an average price of 184p per share. Since the year end, the Company has purchased for cancellation a further 200,000 Ordinary shares at 196p per share on 10 July 2001 and 469,000 Ordinary shares at 195p per share on 12 September 2001.

7% Cumulative Preference shares

The Preference shares carry the right to a fixed cumulative dividend of 7% per share per annum. This amount is payable half yearly in arrears on 30 June and 31 December each year. Until the abolition of Advance Corporation Tax in April 1999, the rate applicable to the Preference shares was 4·9% net.

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

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

NOTES TO THE ACCOUNTS

16 Reserves

(a) Group	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 2000	94,724	7,845	69,752	172,321
Retained profit	—	—	3,372	3,372
Market purchases of equity share capital	—	2,818	(20,846)	(18,028)
Surplus on revaluation	5,922	—	—	5,922
Realised revaluation gains	(1,880)	—	1,880	—
Taxation on realised property revaluation gains	—	—	(68)	(68)
At 30 June 2001	**98,766**	**10,663**	**54,090**	**163,519**

(b) Company	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 2000	851	7,845	33,451	42,147
Retained profit	—	—	9,137	9,137
Market purchases of equity share capital	—	2,818	(20,846)	(18,028)
At 30 June 2001	**851**	**10,663**	**21,742**	**33,256**

The profit for the year of the Company, before dividends, was £15,087,152 (2000: £36,048,173).

17 Deferred taxation

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

	2001 £000	2000 £000
Accelerated capital allowances	**9,743**	9,562
Gains rolled over	**34**	18
Surplus on revaluation	**14,534**	15,496
	24,311	25,076

Deferred taxation in the Company is not material.

18 Investment in subsidiary undertakings

	2001 £000	2000 £000
Shares		
At cost	**386**	386
At valuation	**8,777**	8,777
	9,163	9,163

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

19 Financial instruments

The Group's principal financial instruments are debenture loans, bank borrowings, preference share capital, cash and short-term deposits. The Group's use of financial instruments is detailed in the Operating Review on pages 10 and 11.

The disclosures below exclude short-term debtors and creditors.

Interest rate risk and profile	**2001 £000**	**2000 £000**
Sterling financial liabilities:		
Fixed rate	**60,675**	65,675
Floating rate (not hedged)	**10,000**	—
	70,675	65,675

The weighted average interest rate on fixed rate financial liabilities at 30 June 2001 was 11.45% (2000: 11·59%). These liabilities, excluding the preference share capital, are fixed for a weighted average period of 13 years (2000: 12·9 years). The floating rate liability is based on three month LIBOR.

Sterling financial assets:		
Floating rate (not hedged)	**1,859**	3,409
Fixed rate	**175**	5,169
Non-interest bearing	**308**	364
	2,342	8,942

Financial assets are cash at bank and in hand, short-term cash deposits and mortgages receivable. The weighted average interest rate on Money Market deposits at 30 June 2001 was 4·38% (2000: 6·13%), fixed for a weighted average period of 2 days (2000: 3·1 months). Cash at bank is at a floating rate based on LIBOR.

Liquidity risk and maturity profile

As stated in the Operating Review, the Group's policy for financing the business is mainly through the use of fixed rate long-term loans. With this in mind the debt structure for the Group at 30 June 2001 was as follows:

	2001 £000	**2001 %**	**2000 £000**	**2000 %**
Within one year or less or on demand	—	—	5,000	8
More than two years but not more than five years	10,000	14	—	—
More than five years	60,675	86	60,675	92
	70,675	**100**	65,675	100

The Group has £5 million of undrawn revolving credit facility which expires in 2004.

19 Financial instruments (continued)

Fair values As at 30 June 2001	Book Value £000	Fair Value £000	Fair value Adjustment £000	% of Book value
11½% First Mortgage Debenture Stock 2014	60,000	79,350	19,350	32%
Preference share capital	675	528	(147)	(22%)
HSBC Bank plc revolving credit facility	10,000	10,000	—	—
Net debt and Preference share capital	**70,675**	**89,878**	**19,203**	**27%**
As at 30 June 2000	**£000**	**£000**	**£000**	**%**
13¼% First Mortgage Debenture Stock 2000/05	5,000	4,975	(25)	(1)
11½% First Mortgage Debenture Stock 2014	60,000	86,100	26,100	44
Preference share capital	675	565	(110)	(16)
Net debt and Preference share capital	65,675	91,640	25,965	40

The fair values of the Debenture Stocks and Preference share capital are based on the mid price at the close of business of those instruments as sourced from the Daily Official List for 29 June 2001 and 30 June 2000 respectively. The fair value of the revolving credit facility has been calculated by discounting expected cash flows at prevailing interest rates at the year end and is not materially different to book value.

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

20 Contingent liabilities

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

21 Commitments

	2001 £000	2000 £000
(a) Capital		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	**191**	3,777
The amount of capital expenditure authorised in addition to the above commitments	—	1,500
(b) Operating leases		
The annual commitment under a non-cancellable operating lease is as follows:		
Operating leases for land and buildings which expire in over five years	**43**	43

22 *Subsidiary undertakings*

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

Property investment and development

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

Trading

A & J Mucklow & Co Limited