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A&J MUCKLOW

GROUP PLC



ANNUAL REPORT AND ACCOUNTS 2005

CORPORATE STATEMENT

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

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

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5 YEAR PERFORMANCE

Dividend per Share

2001	9.57p
2002	10.29p
2003	11.06p
2004	11.88p
2005	12.76p

Adjusted NAV per Share

2001	308p
2002	332p
2003	342p
2004	374p
2005	377p

HIGHLIGHTS

- Valuation of investment portfolio up by 6.1%.
- Ordinary dividend increased by 7.4%.
- Profit after tax of £0.68m (2004: £12.38m) reflecting the cost of redeeming debenture stock.
- £33.60m of 11.5% First Mortgage Debenture Stock 2014 bought in for cancellation at a cost of £48.52m.
- Sale of non-core assets during the year realising £29.80m, profit £1.10m.
- Total sales of investment properties over last two years has been £79.52m, with the loss of annual rent of £5.65m.
- Two new investment properties acquired and developed during the year at a cost of £5.0m. Revalued at £6.9m.
- Occupancy level maintained at around 93%.

	2005	2004
Net rent receivable	£15.61m	£17.54m
(Loss)/profit before taxation (after exceptional finance costs)	£(1.93)m	£13.88m
Profit after taxation	£0.68m	£12.38m
Ordinary dividend per share	12.76p	11.88p
Earnings per share	1.05p	20.56p
Earnings per share — adjusted ¹	14.56p	17.48p
Net asset value per share	345p	338p
Net asset value per share — adjusted ²	377p	374p
Equity shareholders' funds	£206.70m	£202.57m
Gearing (net of cash)	3%	8%

Notes

- 1 Adjusted for the premium on redemption of debenture stock (net of tax), profit on disposal of investment properties (net of tax) and deferred tax.
- 2 Adjusted for the surplus on land held as trading properties and deferred tax.

See note 11 for details of the adjustments.

CHAIRMAN'S STATEMENT

I am pleased to report another solid performance by the Group in a year dominated by further property disposals and debt restructuring. The early redemption of a substantial part of our 11.5% First Mortgage Debenture Stock in the second half year, has resulted in a one-off charge of £10.44m against post-tax profit and net asset value. Earnings will be significantly enhanced by future interest savings.

Post-tax profit for the year ended 30 June 2005 was £0.68m (2004: £12.38m), reflecting the cost of the debenture buy-back and the loss of rental income from property sales. Trading profit from residential land sales was also lower at £1.16m, compared with £3.66m for the corresponding period last year.

Adjusted net asset value per share, which includes the current value of trading properties, but excludes deferred taxation, increased marginally during the year from 374p to 377p. This takes into account the one-off charge for the early redemption of the debenture stock which reduced net asset value by 17p per share.

The Group's gearing (net of cash) at the year end was 3% (2004: 8%). Total borrowings (Debenture Stock) had reduced to £15.9m (2004: £49.5m) and cash held in the bank was £10.6m (2004: £34.5m).

Dividend

The Board is recommending the payment of a final dividend of 6.96p per Ordinary share, making a total for the year of 12.76p, an increase of 7.4% over last year's total of 11.88p per share. If approved by Shareholders, the final dividend will be paid on 30 December 2005 to Shareholders on the register at the close of business on 25 November 2005.

Investment Portfolio Review

After a modest increase of 0.7% in value at the Interim stage, property yields hardened in the second half year, as the prospect of lower interest rates refuelled the demand from investors. As a consequence, our investment portfolio increased in value for the full year by 6.1%.

DTZ Debenham Tie Leung reviewed the value of our investment portfolio at 30 June 2005. The total value was £228.05m (2004: £238.97m), an increase over book value for the year of £13.10m.

We have continued to capitalise on the buoyant investment market by selling mature assets with limited growth prospects. The only drawback being, that the competitive market has made it difficult to reinvest our cash in new investment or development opportunities. We have had some success, but most of the cash generated from property sales during the year has been used to buy back our high coupon debt.

In the last 12 months we have sold five investment properties for £29.8m, to show a profit over book value of £1.1m. The rental income lost from these properties was £2.0m per annum. Meanwhile, we have also acquired and developed two new investment properties at a cost of £5.0m. The new properties provide a rental income of £0.5m per annum and were revalued at the year end at £6.9m.

The letting market has remained subdued, particularly for poorer quality buildings. Rental levels for modern and older industrial units have converged over the last couple of years, to the point where there is little difference in rent between a 30 year old building and brand new units. Tenants are becoming more aware of the benefits of occupying better quality space. Fortunately most of our properties are modern and prominently located and we have managed to re-let vacant space quickly and maintain occupancy levels at around 93% (2004: 94%).

We have not carried out any new speculative developments for some time, due to the weak occupier market and oversupply of competing business space. However, we have recently seen a reduction in the availability of medium sized industrial/warehouse buildings around the Midlands and intend to commence construction in the next couple of months of two units, totalling 85,000 sq ft.

The emphasis going forward will be towards achieving higher returns from development and to improve our investment portfolio, through active management and planning enhancement.

In June 2005, we agreed to acquire a prominent site, close to junction 6 at Worcester. The site extends to 8.5 acres and comprises an existing industrial building of 110,000 sq ft, with 3 acres of surplus development land. Vacant possession and completion of this site is due to take place later this year.

Since the year end we have submitted an outline planning application for a substantial mixed use scheme totalling 500,000 sq ft, on the site of our Bull Ring Trading Estate, Birmingham. The existing property currently comprises 69,000 sq ft of industrial space, built in the 1980s and is located close to the City Centre.

Trading Properties

As mentioned in my Interim Statement, only one small residential site in Darcy Lever, Bolton was sold during the year for £1.17m, to show a profit over book value of £1.08m. The value of the remaining trading properties was also reviewed by DTZ Debenham Tie Leung at our year end. The total value was £14.67m (2004: £15.27m) which shows a surplus of £13.36m over the balance sheet book value.

Debenture Buy-Back

In February 2005, the Group bought in for cancellation £33.6m of its 11.5% First Mortgage Debenture Stock at a cost of £48.5m. The debt was due to mature in 2014 and the interest payable was £3.86m per annum.

The one-off premium charge of £14.9m is tax deductible (£10.4m post-tax) and the benefit has been used in the current financial year to offset against tax incurred as a result of various property sales. The buy-back was funded from cash and the net interest gain will be in excess of £1.0m per annum.

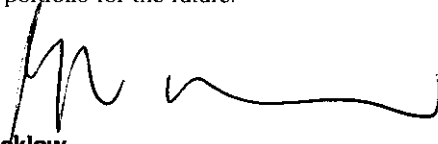
The debenture buy-back also provides the Group with greater flexibility to increase its gearing in the future, on more attractive terms and prepares us for the possible introduction of a new REIT structure.

Board and Management

Allan Mucklow (aged 70) retired from the Board on 30 August 2005 after completing 49 years' service with the Group. My colleagues and I would like to thank him for his continued support over the years and wish him well in his retirement.

Outlook

The Board remain committed to providing Shareholders with long-term income and capital growth, through careful property selection and by actively managing its assets. The exceptionally strong investment market over the last two years has enabled us to profitably sell £79.52m of mature and ex growth properties, with the loss of rental income of £5.65m per annum. Funds raised from the disposals have financed the redemption of expensive long-term debt and provides the Group with more flexibility and a significantly strengthened balance sheet. It is difficult to forecast what may happen to property yields over the next 12 months, but I am confident that we will benefit from this year's restructuring and will continue to prosper, as we start to rebuild our investment portfolio for the future.



Rupert J Mucklow

Chairman

29 September 2005

OPERATING REVIEW

Since joining the Group last year I have undertaken a fundamental review of all aspects of the business, culminating in the implementation of a programme of reform and a rolling strategic review.

As a consequence, over the course of this financial year and against a background of another solid performance, various initiatives have taken place in order to increase efficiency and create a future platform for the Group's expansion and growth objectives. These initiatives have included the decision to take advantage of a very strong investment market to sell a number of properties with limited growth prospects. The resulting cash reserves have been utilised in buying back a large proportion of our expensive debt, thus allowing us to substantially reduce our annual interest payments.

We have also decided to commence the speculative development of two industrial/warehouse units (85,000 sq ft) at Star Gate (Birmingham), one of our prime development sites, to take advantage of the perceived lack of quality accommodation in the area.

Demand for development sites remains very competitive. However, our search for prime development land has culminated in the recent exchange on a 8.5 acre site which includes a 110,000 sq ft industrial unit at Junction 6 M5. This was an off-market transaction and completion is due to take place later this year. We are currently in negotiation on other land purchases and intend to increase our development exposure over the next couple of years.

We have also taken the decision to relocate our head office to one of our nearby investment properties, where we are currently undertaking a high quality refurbishment. This decision follows the granting of outline planning permission for the development of apartments on our existing premises.

Group objectives

As in recent years the Group's main activities and objectives remain the same. We seek to develop and invest in commercial and industrial properties in prominent locations, principally in the Midlands. Through the adoption of a low to medium risk profile our main objective is to continue to provide Shareholders with long-term stability and growth in earnings, dividends and net asset value per share.

Our strong commitment to constantly manage and review both the existing portfolio and financial aspects of our business provide a strong basis from which to exploit new investment and development opportunities.

The strategy

Our long-term investment strategy remains to maintain a balanced portfolio of modern properties, with potential for long-term rental and capital growth. We also look to expand our portfolio as and when appropriate, through selective development of and investment in new properties and by actively managing existing buildings, to improve income and capital appreciation. Mature assets with limited growth prospects are sold and the proceeds either reinvested in new property, or used in other ways to enhance shareholder value.

Our short-term investment strategy is determined by market conditions. We believe that the precise timing of acquisitions and disposals is crucial for boosting returns from our property portfolio. We are constantly monitoring tenant demand and investor confidence for signs of changes in the property cycle and are well positioned to capitalise on any opportunities that may arise. We aim to acquire modern, securely let investment properties, when the demand from investors is weak and values are low and only commit ourselves to new speculative developments when economic conditions are stable. Property disposals are made when the

ACTIVELY MANAGING PROPERTIES TO IMPROVE INCOME AND VALUE

KNIGHTSBRIDGE PARK, Wainwright Road, Warndon, Worcester

We acquired this part-occupied, 48,145 sq ft industrial/warehouse building in November 2004 for £2.32m and subsequently let the vacant space to a local occupier. The building was valued at £3.3m at our year end.

OPERATING REVIEW

investment market is robust and rental levels have either peaked or are unlikely to improve in the foreseeable future.

Investor demand remains extremely strong from both the domestic and international markets. Prime and secondary yields are reaching historically low levels. Against this background we believe it is inappropriate to acquire investment property at the current stage of the cycle. However, we continue to look for opportunistic deals where we can increase values through active management. During the year, we acquired a part-vacant investment property, where we immediately let the vacant space.

Given the vagaries of the property market it is of paramount importance that we continually assess our position in the market, in order to take immediate advantage of any opportunities that arise. We are continually monitoring market conditions to take advantage of investment and development opportunities that meet our strict criteria for long-term growth potential.

Investment portfolio performance

The performance of the investment market is reflected in the valuation increase seen in the property portfolio in the second half of the financial year, where an uplift of £11.57m was recorded, a 5.4% increase over our closing book value. The total revaluation surplus for the year was £13.10m, showing a valuation increase of 6.1% over the year. Industrial property increased by 4.7%, offices by 8.5% and retail by 13.2%.

Like-for-like rents during the year decreased by £0.27m, with a small increase in vacant space to 6.65% (2004: 6.07%). The retained portfolio saw increases in annual rent due to rent reviews of

SUMMARY OF PORTFOLIO AS AT 30 JUNE 2005

	Developed Area		Vacant Space		Rent	Value	
	sq ft	(sq m)	sq ft	(sq m)	£m pa	£m	
Industrial	2,304,665	(214,109)	164,818	(15,312)	10.48	153.01	*
Office	191,298	(17,772)	13,939	(1,295)	2.78	50.71	†
Retail	171,557	(15,938)	—	—	1.45	22.90	
Refurbishment	21,237	(1,973)	—	—	—	1.43	
Total	2,688,757	(249,792)	178,757	(16,607)	14.71	228.05	

* including undeveloped land valued at £3.0m; † including undeveloped land valued at £5.0m

TYPE OF PROPERTY BY LOCATION AS AT 30 JUNE 2005

	Midlands		South East		Total	
	£m	%	£m	%	£m	%
Industrial	125.59*	55	27.42	12	153.01	67
Office	41.12†	18	11.02	5	52.14	23
Retail	22.90	10	—	—	22.90	10
Total	189.61	83	38.44	17	228.05	100

* including undeveloped land valued at £3.0m; † including undeveloped land valued at £5.0m

DEVELOPING QUALITY BUILDINGS FOR LONG-TERM INVESTMENT

APEX HOUSE, Wainwright Road, Warndon, Worcester

We acquired this site in December 2003 for £0.45m and obtained planning permission for an 18,606 sq ft office building. Construction was completed in July 2005 at a cost of £1.85m. The property has been let on a 25 year lease and was valued at £3.6m at our year end.

OPERATING REVIEW

AVERAGE RENT ON LET SPACE AS AT 30 JUNE 2005

	Midlands		South East		Total	
	sq ft	(sq m)	sq ft	(sq m)	sq ft	(sq m)
Industrial	£4.67	(£50.26)	£6.25	(£67.23)	£4.90	(£52.72)
Office	£14.68	(£158.06)	£20.56	(£221.28)	£15.70	(£169.00)
Retail	£8.43	(£90.75)	—	—	£8.43	(£90.75)

£0.24m, lettings of £0.82m and vacancies reduced rents by £1.33m. This decrease in rental is largely due to the expiry of two leases on office buildings at Henley and Halesowen in the second half of the year, one of which is being substantially redeveloped.

In November 2004 we acquired a part vacant 48,145 sq ft industrial/warehouse unit for £2.32m and immediately let the remaining space. The property was valued at £3.30m as at 30 June 2005.

As previously referred to, we sold our largest single office investment at Dukes Green, Heathrow for £14.90m in December 2004. Duddeston Mill Trading Estate was sold in November 2004 for £6.41m. In January 2005 we sold two vacant office buildings in Halesowen for £1.48m and another office investment at Sheldon Court, Birmingham was sold in March 2005 for £7.00m.

These sales have generated a profit of £1.10m, with a loss of annual rent of £2.01m at the time of sale.

In July 2005 we completed the construction of a 18,600 sq ft office building in Worcester on land acquired in December 2003. The building was pre-let to Southco UK (Holdings) Limited on a 25 year lease and was completed and occupied in July 2005.

Since the year end we have agreed to dispose of three office buildings in Edgbaston, Birmingham for £8.1m. The properties are fully let and currently produce an annual income of £0.6m.

The investment portfolio is our foundation and we aim to maximise long-term returns, through actively managing income and keeping void levels low. The Group is constantly refurbishing units to maintain the quality of the portfolio, to enhance letting opportunities and increase rental levels.

Our preferred method of growing the investment portfolio is through selective development and retention of the completed investments. Our development pipeline currently consists of Star Gate (Birmingham), Velocity (Middlemarch, Coventry), J6 (Worcester) and Whitehall House (Halesowen).

Star Gate — Birmingham

In May 2005 we obtained detailed planning permission to build 85,000 sq ft of industrial/warehouse space on this site, which is prominently located close to Junction 6 of the M6 motorway. Construction is due to start in November 2005 and the units should be ready for occupation in summer 2006.

Velocity, Middlemarch — Coventry

We are currently marketing this site for a bespoke 47,103 sq ft industrial/warehouse unit. The site is located immediately adjacent to Coventry Airport in an established employment area.

J6 — Worcester

In June 2005 we exchanged contracts to buy an 8.5 acre site, including an existing 110,000 sq ft industrial unit and 3 acres of surplus development land. Completion is due to take place later this year.

ACQUIRING PROMINENT SITES FOR FUTURE DEVELOPMENT

J6, Wainwright Road, Warndon, Worcester

We have agreed to acquire this prominent 8.5 acre site close to Junction 6 of the M5 Motorway. The property comprises a modern 110,000 sq ft industrial/warehouse building with 3 acres of surplus development land. Completion is due to take place later this year.

OPERATING REVIEW

Whitehall House — Halesowen

We are carrying out a substantial refurbishment of this three storey 21,237 sq ft office building, located near to Halesowen Town Centre. The offices will be refurbished to a high standard, including air-conditioning, and are due for completion in May 2006. The Group will be moving its head office into one floor in 2006.

During the year we obtained outline planning permission on the site of our existing offices in Cradley Heath, allowing us to demolish the Victorian building and replace it with 31 apartments.

Full details of our development properties are available on our website, www.mucklow.com.

Trading properties

The Group's trading properties mainly comprise residential land and were valued by DTZ Debenham Tie Leung as of the 30 June 2005 at £14.67m (2004: £15.27m), which shows a surplus over book value of £13.36m.

The residential land bank continues to perform well. Land sales totalling £1.26m were concluded during the year, including a 3.8 acre site in Bolton, Lancashire for £1.17m. Profits from the sale of trading land were £1.16m.

Financial performance

Operating profit was significantly lower this year at £14.83m (2004: £19.14m), mainly as a result of the reduction in rent following the portfolio disposal in October 2003 and property sales in the current financial year (referred to above), and lower profits from the sale of trading properties of £1.16m (2004: £3.66m).

Profits on the disposal of investment property added £1.10m (2004: £1.53m) to profit before interest. As referred to in the Chairman's statement the Board decided to repurchase £33.60m of 11.5% Debenture Stock at a price of £48.52m, leading to an exceptional interest charge to the profit and loss of £14.92m (2004: £1.63m). This redemption has helped to significantly reduce the interest payable in the current financial year, from £6.18m in 2004 to £4.36m. The annual debenture interest saving is £3.86m.

The deferred tax credit to the profit and loss account of £1.44m is largely due to the reversal of tax charges following the disposal of investment property.

The loss before taxation of £1.93m (2004 profit: £13.88m) reflects the premium on redemption of debenture stock of £14.92m. Profit before tax, adjusting for the premium on redemption on debenture stock and profit on disposal of investment property, fell from £13.99m last year to £11.89m in the current year, with lower profits from the sale of trading properties being the main reason for the fall.

Proceeds from the property sales and our existing cash resources were used to finance the repurchase of the 11.5% First Mortgage Debenture Stock 2014. Our year end cash balance was £10.55m (2004: £34.46m) and gearing (net of cash) had reduced to 3% (2004: 8%).

During the last three years prices have been attractive for the redemption of debenture stock. Following the redemption of £33.60m of debenture there remains £15.90m in issue. There are no current proposals to buy back any more debenture stock, but the situation is regularly reviewed.

ADDING VALUE TO PROPERTIES THROUGH PLANNING ENHANCEMENT

HADEN CROSS, Halesowen Road, Cradley Heath, West Midlands

We obtained outline planning consent in March 2005 for 31 apartments on the site of our existing office building. The value of the property increased by £0.6m at our year end.

OPERATING REVIEW

ANALYSIS OF BORROWINGS AT 30 JUNE

	2005 £000	2004 £000
11 ¹ / ₂ % First Mortgage Debenture Stock 2014	15,903	49,500
Preference Share Capital	675	675
Cash and Short-Term Deposits	(10,554)	(34,464)
Net Debt and Preference Share Capital	6,024	15,711
Equity Shareholders' Funds	206,699	202,567
Gearing	3%	8%

Real Estate Investment Trusts

The Group has considered the effect of the possible introduction of a tax transparent property vehicle in the UK and continues to monitor progress. While the Group welcomes the proposals, and has submitted its responses to the points raised in the consultation paper, we await detailed proposals before further consideration is given.

International Financial Reporting Standards (IFRSs)

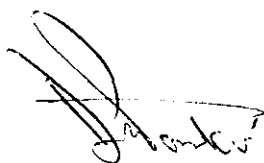
The Group is due to adopt IFRSs for its 30 June 2006 year end. During the year we carried out a review of the impact of the new standards on the report and accounts. The major impacts on the Group have been identified as the requirement to show unrealised revaluation movements within the income statement and providing for contingent chargeable gains.

These factors will increase the volatility of property company results, bringing figures previously reported in the statement of total recognised gains and losses and in the notes on to the face of the profit and loss and balance sheet.

The Group continues to monitor the progress of IFRSs and is intending to report further details of the effect of IFRS on the Group's results in November 2005. The interim results to 31 December 2005 will be announced under IFRS.

Outlook

Our aim is to generate sustained long-term growth for Shareholders through capital appreciation and rental income. We are currently experiencing exceptional returns from property, mainly assisted by the competitive investment market forcing up property values. Over the next 12 months we shall continue to focus our activities towards maximising the value from our existing property portfolio and actively source new development opportunities. The disposals in the year have reduced our rent-roll for the short term, but we now have a high quality portfolio of modern properties and a very strong balance sheet.



Justin Parker
Managing Director
29 September 2005

PROPERTY INVESTMENT PORTFOLIO

Principal properties at 30 June 2005

Industrial (Midlands)

Bewdley Road, Stinchley, Birmingham	54,220
Birchley Island, Oldbury	41,534
Bull Ring Trading Estate, Birmingham	69,054
Coleshill Trading Estate, Birmingham	232,898
Enterprise Trading Estate, Dudley	175,813
Forge Trading Estate, Halesowen	77,102
Forward Park Trading Estate, Birmingham	54,872
Golden Cross, Aston, Birmingham	76,722
Hazelwell Mills Trading Estate, Stinchley	96,189
Kings Hill Business Park, Wednesbury	124,420
Knightsbridge Park, Worcester	48,145
Long Acre Trading Estate, Birmingham	62,392
Mucklow Hill Trading Estate, Halesowen	97,265
Redfern Industrial Park, Tyseley, Birmingham	41,499
Roman Park, Coleshill	84,916
Shenstone Trading Estate, Halesowen	168,621
St Andrews Trading Estate, Birmingham	29,705
Tachbrook Link, Leamington Spa	85,312
Tewkesbury Road, Cheltenham	59,021
Triton Park, Rugby	77,698
Wednesbury One, Wednesbury	132,439

Industrial (South East)

Crompton Fields, Crawley, West Sussex	160,551
Stratton Business Park, Biggleswade, Bedfordshire	34,359
Wates Way, Mitcham	128,453

Sq ft

Offices (Midlands)

36-38 George Road, Edgbaston, Birmingham	11,862
11-12 George Road, Edgbaston, Birmingham	18,595
Concorde House, Trinity Park, Solihull	24,125
Mucklow Office Park, Mucklow Hill, Halesowen	34,703
Whitehall House, Bromsgrove Street, Halesowen	21,233
Century House, Apex 6 Business Park, Worcester	23,061
Apex House, Apex 6 Business Park, Worcester	18,606
Oak Tree Court, Binley Business Park, Coventry	30,000

Offices (South East)

Dukes Gate, Chiswick, London	17,855
York House, Farnborough, Hampshire	12,842
309 Reading Road, Henley-on-Thames, Oxon	12,121

Retail (Midlands)

64/67 High Street, Stourbridge	33,482
Prospect Way, Halesowen	32,000
202-208 High Street, Harborne	24,681
131/148 High Street, Bordesley	12,000
Birchley Island, Oldbury	56,181
Tewkesbury Road, Cheltenham	12,196

FIVE YEAR RECORD

Year to 30 June	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Revenue					
Gross rental income	15,950	17,893	20,394	20,357	19,960
Net rental income	15,613	17,536	20,028	20,213	19,908
Other income	1,162	3,659	1,176	1,170	1,099
Operating profit	14,831	19,142	19,471	19,564	19,033
Profit on disposal of investment properties	1,096	1,527	12	93	114
(Loss)/profit before taxation	(1,934)	13,880	10,328	12,256	11,894
Profit after taxation	678	12,380	8,445	8,862	9,123*
Capital					
Equity shareholders' funds	206,699	202,567	182,631	177,229	170,067*
Property portfolio	228,045	238,723	271,590	271,530	261,985
Per Ordinary share					
Earnings	1.05p	20.56p	14.00p	14.56p	13.44p*
Net dividend	12.76p	11.88p	11.06p	10.29p	9.5689p
Net asset value†	345p	338p	304p	295p	274p*

* Adjusted for the impact of the adoption of Financial Reporting Standard No. 19 'Deferred tax'.

† Excludes surplus on land held as trading properties.

MANAGEMENT AND PROFESSIONAL ADVISERS

Directors

Rupert J Mucklow BSc

Chairman†

Aged 42. Joined the Group 1990.
Appointed executive director 1995, Managing Director 1996, Deputy Chairman 2001 and Executive Chairman 2004.

Justin Parker BSc MRICS

Managing Director

Aged 40. Joined the Group as Managing Director in January 2004.

Peter M Petherbridge

Executive

Aged 58. The Group's solicitor from 1974.
Appointed non-executive director 1990 and executive director 2001.

David F Austin FRICS

Senior Independent Non-executive†‡*

Aged 66. Appointed to the Board 1995.
A chartered surveyor and former joint senior partner of Bucknall Austin. Chairman of the Audit and Remuneration Committees.

David C Groom FCIB

Independent Non-executive†‡*

Aged 66. Appointed to the Board 1996.
A former regional area manager of Midland Bank in Birmingham.

* Member of Remuneration Committee

† Member of Audit Committee

‡ Member of Nomination Committee

Honorary President

Albert J Mucklow ACIS

Company Secretary

David Wooldridge FCCA ACIS

Senior Management

Stephen N Murphy BSc FRICS

Development

M David Folkes MCIOB

Residential Land/Development

David Rampling

Estate Management/Property Leasing

Auditors

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Birmingham
B1 2HZ

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Property Valuers

DTZ Debenham Tie Leung

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Registrars

Capita Registrars

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Website: www.mucklow.com
Company No. 717658

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 30 June 2005.

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 loss before taxation for the year was £1,933,810 and the taxation credit was £2,612,229.

Review of business

The Group's activities are reviewed on pages 4 to 12.

Ordinary dividends

On 30 June 2005, an interim dividend of 5.80p per share was paid. A final dividend of 6.96p per share is proposed. The total dividend for the year will be 12.76p per share.

The final dividend, if confirmed, will be paid on 30 December 2005 to shareholders on the register at the close of business on 25 November 2005.

Employee share ownership scheme

On 25 October 2002 the Company adopted the A & J Mucklow Group plc Share Incentive Plan. This is an Inland Revenue approved share scheme, under which all employees of the Group with a minimum period of service of 6 months prior to the start of an accumulation period are eligible to participate. The Inland Revenue allows monthly employee contributions of £125 (or 10% of salary if lower). Under the scheme an 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 17,274 Ordinary shares were purchased, including 7,040 free shares, at a cost to the Group of £43,787. No free shares were issued to participants in the year ended 30 June 2004.

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.

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 29 (2004: 5). The average number of creditor days for the Company was 4 (2004: 27). The creditor days figure is significantly affected by property acquisitions and similar transactions.

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 and social policy

The Group's environmental and social policy, detailed below, addresses the importance of those issues in the day-to-day running of the business.

Business activities

The Group's principal activity is to develop and invest in commercial and industrial properties in prominent locations around the Midlands and South East. Our main objective is to provide shareholders with long-term stability and growth in earnings, dividends and net asset value per share.

Group structure

A & J Mucklow Group plc has six 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 to assess whether any environmental damage has occurred or is likely to occur.
- All leases prepared after the adoption of the policy will commit occupiers to observe any environmental regulations.

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

Social policy

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

Planning

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

DIRECTORS' REPORT

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's head office has had an independent health and safety review and improvement works identified are ongoing.

We have introduced procedures to reduce the waste produced by the Group, including incentives for company car drivers to move to more CO₂ 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 £1,315 (2004: £598).

Directors

The present Board is as shown on page 15. Allan J Mucklow retired as a director on 30 August 2005.

Rupert Mucklow (Chairman) and David Groom (non-executive director) retire by rotation and, being eligible, offer themselves for re-election.

The three executive directors, Rupert J Mucklow, Justin Parker 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 2005	at 30 June 2004
Rupert J Mucklow	809,549	807,041
Justin Parker	909	—
Peter M Petherbridge	21,091 (a)	114,058 (a)
David F Austin	9,330	9,330
David C Groom	10,000	10,000
Allan J Mucklow (retired 30/08/05)	3,615,299	3,615,299

The holdings marked (a) included non-beneficial interests in Nil (2004: 95,000) Ordinary shares.

There were no other movements in any of the directors' shareholdings between 1 July 2005 and 6 September 2005.

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stock at either 30 June 2005 or 6 September 2005.

Directors' and officers' liability insurance

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

Substantial shareholdings

The Mucklow family, comprising the descendants of Jothan Mucklow (deceased), joint founder of the Company, collectively have an interest in 25,174,211 (2004: 25,312,385) Ordinary Shares, representing 41.96% (2004: 42.19%) of the issued Ordinary share capital. The Takeover Panel considers that the Mucklow family are acting in concert.

In addition to those noted above, the Company has been notified of the following interests in more than 3% of its issued Share Capital as at 5 September 2005.

	Number	%
Trefick Limited	8,386,943	13.98
Tellin (Bermuda) Limited	3,831,530	6.39
Wesleyan Assurance Society	2,820,000	4.70

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 2005.

This revaluation has been incorporated in the accounts, resulting in an increase of £13.10m 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.

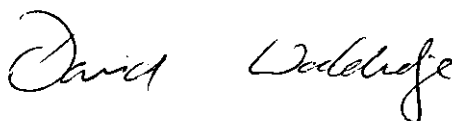
Close company provisions

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

Auditors

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

By order of the Board
David Wooldridge
Secretary



Haden Cross, Halesowen Road, Cradley Heath
West Midlands, B64 7JB
29 September 2005

STATEMENT OF CORPORATE GOVERNANCE

FRC Combined Code

The Company has complied with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance throughout the year ended 30 June 2005, except as disclosed below. The main area of non-compliance relates to the independence of Allan Mucklow, who retired as a non-executive director on 30 August 2005.

The Board

The Board comprises three executive directors: Rupert J Mucklow (Chairman), Justin Parker (Managing Director) and Peter M Petherbridge, and three non-executive directors: David Austin (Senior Independent Non-Executive), David Groom and Allan J Mucklow. Allan J Mucklow retired as a non-executive director on 30 August 2005.

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. 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.

The Board welcomed the introduction of the revised Combined Code, but there are areas that we do not consider to be appropriate for a company of our size. The main area of non-compliance for the Group is the independence of non-executive directors. The Board has considered the Code's indicators of a lack of independence for all non-executive directors and, as previously stated, Allan Mucklow is not considered to be independent. Mr Allan Mucklow has been actively involved in all of the major corporate decisions of the Group since 1957 and the Board valued his knowledge.

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

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

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. Rupert Mucklow (Chairman) has a significant shareholding in the Company which ensures that his interests are aligned with those of shareholders generally. Following the introduction of the revised Combined Code and the recruitment of Justin Parker as Managing Director, the Board has considered this area of non-compliance with the Code. Further details are given in the Board Report on Directors' Remuneration on pages 23 to 25.

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 sub-committees. 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.

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 has updated its policy and 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.

Rupert J Mucklow and David Groom are seeking re-election as directors at the 2005 Annual General Meeting.

Rupert J Mucklow (42) joined the Group in 1990, having previously worked for two national surveying practices in London, dealing with agency and investment. He became an executive director in 1995, Managing Director in 1996, Deputy Chairman in 2001 and was appointed to his current role as Executive Chairman in 2004.

David Groom (66) was appointed as a non-executive director in 1996, having previously been a regional area manager of Midland Bank (now HSBC) in Birmingham. HSBC are the Group's primary bankers, but the Board does not consider that Mr Groom's former employment with HSBC in any way affects his independence as a non-executive director of the Company. The Chairman confirms that, following a full performance appraisal, David Groom 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 2005 is as follows:

	Board	Audit	Remuneration
Number held	12	3	1
Number attended:			
Rupert J Mucklow	12	■	■
Justin Parker	11	■	■
Peter M Petherbridge	10	■	■
David Austin	11	3	1
David Groom	12	3	1
Allan J Mucklow	7	3	1

■ Indicates not a member of that committee.

No meetings of the nomination committee were held in the year under review.

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.

Audit Committee

The Audit Committee comprised David Austin (Senior Independent Non-Executive), David Groom and Allan J Mucklow for the year under review. The Audit Committee included one non-executive director who is not 'independent' as defined by the Code. Following Allan J Mucklow's retirement on 30 August 2005, the Committee now comprises David Austin and David Groom.

The Committee now consists of two non-executive directors who are considered to be independent by the Board, in compliance with the Code.

The Audit Committee meets regularly to review the interim and preliminary results, to receive reports from the Company's auditors, agree audit strategy, monitor the scope and results of the Company's annual audit, and deal with any matters raised under the Company's whistle-blowing policy.

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

The Audit Committee reviews the level of non-audit fees paid to Deloitte & Touche LLP and the internal independence policies of Deloitte & Touche LLP. The Committee does not consider that there is any risk to the independence of the audit.

Remuneration Committee

The Remuneration Committee comprised David Austin (Senior Independent Non-Executive), David Groom and Allan J Mucklow for the year under review. The Remuneration Committee included one non-executive director who is not 'independent' as defined by the Code. Following Allan J Mucklow's retirement on 30 August 2005, the Committee now comprises David Austin and David Groom.

The Committee now consists of two non-executive directors who are considered to be independent by the Board, in compliance with the Code.

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 23 to 25.

Nomination Committee

The Nomination Committee comprised Rupert J Mucklow (Group Chairman), David Austin (Senior Independent Non-Executive), David Groom and Allan J Mucklow. The Committee did not have a majority of members who were independent non-executives directors during the year under review.

Following Allan J Mucklow's retirement on 30 August 2005, the Committee now comprises Rupert J Mucklow, David Austin and David Groom. The Committee now has a majority of its membership consisting of non-executive directors who are considered to be independent by the Board.

STATEMENT OF CORPORATE GOVERNANCE

Shareholders

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

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

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

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

Internal control

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

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

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

4. Computer systems

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

5. Controls over central functions

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

6. Role of the executive directors

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

BOARD REPORT ON DIRECTORS' REMUNERATION

Introduction

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

The regulations require the auditors to report to the Company's members as to whether in their opinion the part of the report which requires auditing has been properly prepared in accordance with the Companies Act 1985 as amended by the regulations. The information contained on these two pages is unaudited. However, the disclosures in the Directors' Report and note 8 to the accounts that are referred to within this report contain information that is audited as part of this report.

Remuneration Committee

The Remuneration Committee has consisted of three non-executive directors throughout the year: myself as Chairman, David C Groom and Allan J Mucklow. Following the retirement of Allan J Mucklow on 30 August 2005, the Remuneration Committee currently consists of David Austin and David Groom. 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 8 to the accounts, which constitute part of this Report.

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

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

The remuneration of the executive directors does not currently have a significant performance related element. However, as stated in the statement of corporate governance, Rupert J Mucklow has a significant shareholding in the Company which ensures that his interest is aligned with shareholders generally.

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

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

The Remuneration Committee has also considered introducing a long-term incentive plan. It has resolved that, for Justin Parker only, a rolling three-year long-term incentive plan should be introduced, which compares the Company's total shareholder return (share price plus dividends reinvested) against other quoted real estate companies. The maximum award, payable in cash, receivable by Mr Parker will be based on 50% of his annual basic salary at the start of each three year period. No award will be given if the Company's total return over the three year period is below the FTSE Real Estate Index. The award will be given on a sliding scale as follows:

BOARD REPORT ON DIRECTORS' REMUNERATION

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

The first three year period began on 1 January 2004, and new three year measurement periods will commence annually on 1 January.

Justin Parker was recruited by the Group on the basis that performance related pay would form a part of his total remuneration. The Remuneration Committee considers that the annual bonus, in conjunction with the long-term incentive plan, will align the interests of the Chairman and Managing Director with shareholders generally. Our aim is to only provide exceptional salaries for exceptional performance.

Executive directors' remuneration

The main components of the executive directors' remuneration are:

1. salary which is reviewed on an individual basis each year;
2. in respect of Rupert J Mucklow and Justin Parker, an annual cash bonus;
3. benefits in kind which relate principally to the provision of a company car and fuel benefits;*
4. pension contributions;
5. an all employee, Inland Revenue approved, share incentive plan. Further details of the scheme are given in the Directors' Report.

* Peter M Petherbridge receives a cash alternative to a company car. For the year ended 30 June 2005 this amounted to £8,652. Justin Parker receives a cash alternative to a company car, which amounted to £20,600 for the year ended 30 June 2005.

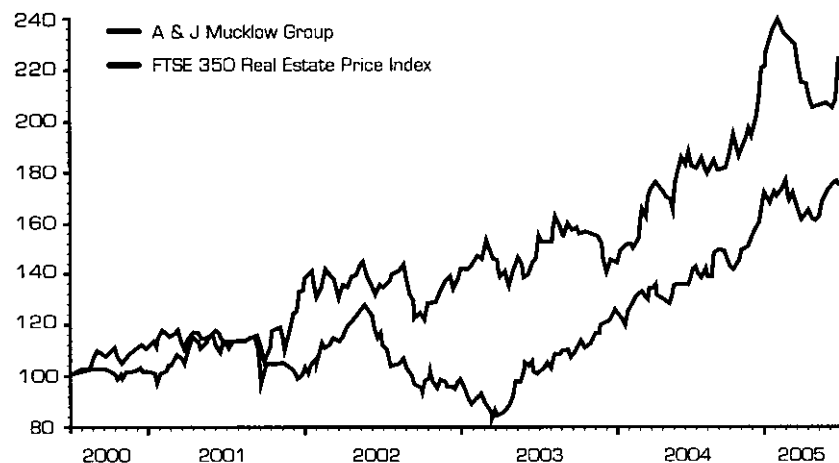
Peter M Petherbridge receives a contribution towards his own personal pension plan.

Benefits in kind are not pensionable.

A detailed audited summary of the directors' emoluments is given in note 8 to the accounts.

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.



Source: DATASTREAM

Service contracts

The three executive directors, Rupert J Mucklow, Justin Parker and Peter M Petherbridge, 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 10 July 2001 in respect of Peter M Petherbridge. Non-executive directors do not have service contracts.

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

Pensions

Pension contributions are made by the Group into existing defined contribution personal pension schemes on behalf of Rupert J Mucklow, Justin Parker and Peter M Petherbridge. No Group company pension scheme is operated for the other directors (see note 8 to the accounts).

Details of all elements of the remuneration package of each director are given in note 8 to the accounts. Details of directors' share interests are given in the Directors' Report.

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

Approved by and signed for and on behalf of the Board

David F Austin

Senior Independent Non-Executive Director

29 September 2005



STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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

We have audited the financial statements of A & J Mucklow Group plc for the year ended 30 June 2005 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Board Report on Directors' Remuneration that is described as having been audited.

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

Respective responsibilities of directors and auditors

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. They are also responsible for the preparation of the other information contained in the annual report including the Board Report on Directors' Remuneration. Our responsibility is to audit the financial statements and the part of the Board Report on Directors' Remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Board Report on Directors' Remuneration 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 and the part of the Board Report on Directors' Remuneration described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 and the part of the Board Report on Directors' Remuneration described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Board Report on Directors' Remuneration described as having been audited.

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 2005 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Board Report on Directors' Remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Birmingham
29 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 2005

	Notes	2005 £000	2004 £000
Rental income		15,950	17,893
Operating expenses		(2,281)	(2,410)
Other income		1,162	3,659
Operating profit	2 & 3	14,831	19,142
Profit on disposal of investment properties	4	1,096	1,527
Profit on ordinary activities before interest		15,927	20,669
Other interest receivable and similar income	5	1,418	1,021
Interest payable and similar charges	6	(4,361)	(6,178)
Exceptional interest payable	7	(14,918)	(1,632)
Total interest payable and similar charges		(19,279)	(7,810)
(Loss)/profit on ordinary activities before taxation		(1,934)	13,880
Taxation	9	2,612	(1,500)
Profit for the financial year		678	12,380
Dividends (including non-equity dividends)	10	(7,702)	(7,174)
Retained (loss)/profit for the financial year	19	(7,024)	5,206
Basic and diluted earnings per share	11	1.05p	20.56p
Adjusted earnings per share	11	14.56p	17.48p
Dividend per Ordinary share		12.76p	11.88p

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 2005

	Notes	2005 £000	2004 £000
Fixed assets			
Tangible	12	228,166	238,772
Current assets			
Trading properties	13	1,292	1,216
Debtors — due within one year	14	1,684	1,315
— due after more than one year	14	418	413
Cash at bank and in hand		10,554	34,464
		13,948	37,408
Creditors: Amounts falling due within one year	15	(12,703)	(15,860)
Net current assets		1,245	21,548
Total assets less current liabilities		229,411	260,320
Creditors: Amounts falling due after more than one year	16	(15,903)	(49,500)
Provisions for liabilities and charges	17	(6,134)	(7,578)
		207,374	203,242
Capital and reserves			
Non-equity share capital	18	675	675
Equity share capital	18	14,998	14,998
Revaluation reserve	19	112,117	113,084
Capital redemption reserve	19	11,162	11,162
Profit and loss account	19	68,422	63,323
Shareholders' funds		207,374	203,242
Attributable to equity shareholders		206,699	202,567
Attributable to non-equity shareholders		675	675
		207,374	203,242


Rupert J Mucklow
Justin Parker

Approved by the Board on 29 September 2005

The notes attached are an integral part of the accounts.

PARENT COMPANY BALANCE SHEET

at 30 June 2005

	Notes	2005 £000	2004 £000
Fixed assets			
Tangible	12	1,500	900
Investments	20	9,233	9,233
		10,733	10,133
Current assets			
Debtors — due within one year	14	53,282	62,201
Cash at bank and in hand		8,901	33,503
		62,183	95,704
Creditors: Amounts falling due within one year	15	(5,103)	(6,806)
Net current assets		57,080	88,898
Total assets less current liabilities		67,813	99,031
Creditors: Amounts falling due after more than one year	16	(15,903)	(49,500)
		51,910	49,531
Capital and reserves			
Non-equity share capital	18	675	675
Equity share capital	18	14,998	14,998
Revaluation reserve	19	1,442	866
Capital redemption reserve	19	11,162	11,162
Profit and loss account	19	23,633	21,830
Shareholders' funds		51,910	49,531
Attributable to equity shareholders		51,235	48,856
Attributable to non-equity shareholders		675	675
		51,910	49,531


Rupert J Mucklow
Justin Parker

Approved by the Board on 29 September 2005

The notes attached are an integral part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2005

	Notes	2005 £000	2004 £000
Cash flow from operating activities	1	12,000	17,969
Returns on investments and servicing of finance			
Interest received		1,413	1,020
Interest paid		(4,361)	(5,904)
Premium on redemption of debenture stock		(14,918)	(1,632)
Non-equity dividends paid		(47)	(47)
		(17,913)	(6,563)
Taxation			
Corporation tax paid		(2,877)	(2,857)
Corporation tax refunded		785	108
		(2,092)	(2,749)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,576)	(664)
Sale of tangible fixed assets		29,635	51,330
		25,059	50,666
Equity dividends paid		(7,367)	(6,857)
Cash inflow before financing		9,687	52,466
Financing			
Revolving credit facility		—	(15,000)
Redemption of debenture stock		(33,597)	(4,500)
		(33,597)	(19,500)
(Decrease)/increase in cash in the year	2	(23,910)	32,966

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1 Reconciliation of operating profit to cash flow from operating activities

	2005 £000	2004 £000
Operating profit	14,831	19,142
Depreciation	52	48
Profit on sale of fixed assets	(26)	(14)
(Increase)/decrease in stocks	(76)	248
(Increase)/decrease in debtors	(601)	431
Decrease in creditors	(2,180)	(1,886)
	12,000	17,969

2 Reconciliation of movement in cash to movement in net debt

(Decrease)/increase in cash in the year	(23,910)	32,966
Decrease in borrowing in the year	33,597	19,500
Net debt as at 1 July	(15,036)	(67,502)
Net debt as at 30 June	(5,349)	(15,036)

3 Analysis of net debt

	1 July 2004 £000	Movement £000	30 June 2005 £000
Cash at bank and in hand	34,464	(23,910)	10,554
Debentures due after one year	(49,500)	33,597	(15,903)
	(15,036)	9,687	(5,349)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005	2004
	£000	£000
Profit for the financial year	678	12,380
Unrealised surplus on revaluation of properties	13,102	15,328
Taxation on realised revaluation gains	(1,946)	(598)
Total gains and losses for the financial year	11,834	27,110

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005	2004
	£000	£000
Profit for the financial year	678	12,380
Dividends	(7,702)	(7,174)
Retained (loss)/profit for the financial year	(7,024)	5,206
Unrealised surplus on revaluation of properties	13,102	15,328
Taxation on realised revaluation gains	(1,946)	(598)
Net increase in shareholders' funds	4,132	19,936
Shareholders' funds at 1 July	203,242	183,306
Shareholders' funds at 30 June	207,374	203,242

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2005	2004
	£000	£000
Reported (loss)/profit on ordinary activities before taxation	(1,934)	13,880
Realisation of property revaluation gains of previous years	14,069	13,133
Historical cost profit on ordinary activities before taxation	12,135	27,013
Historical cost profit for the year retained after taxation and dividends	5,099	17,741

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.

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.

The Group has changed its accounting policy for the valuation of properties under development. Previously they were valued at cost until completion, when they were transferred to investment properties and valued at open market value. The Group has considered this policy, and its consistency with reporting under International Financial Reporting Standards, and has decided to value properties under development at open market value. This has increased net assets in the current year by £1.27m. There is no effect on prior year net assets. The profit and loss account is unaffected by this change in policy for the two years under review.

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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 directly to reserves 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

	2005 £000	2004 £000
<i>(a) Operating profit</i>		
Gross rental income	15,950	17,893
Property outgoings	(337)	(357)
Net rental income	15,613	17,536
Sale of trading properties	1,256	3,820
Cost of sales of trading properties	(94)	(161)
Other income	1,162	3,659
Administration expenses	(1,944)	(2,053)
Operating profit	14,831	19,142

NOTES TO THE ACCOUNTS

2 Rental income and other income and operating profit (continued)

	2005 £000	2004 £000
<i>(b) (Loss)/profit on ordinary activities before taxation is stated after charging the following:</i>		
Operating leases — land and buildings	2	2
Depreciation	52	48
Profit on sale of fixed assets	(26)	(14)
Auditors' remuneration		
Audit	33	31
Other services	40	40

The Company's audit fee was £5,000 (2004: £5,000). The fees paid to the Group's auditors in respect of other services primarily relate to corporate tax compliance work and corporate tax advice, VAT advice and advice on the impact of International Financial Reporting Standards on the Group. The level of fees paid to Deloitte & Touche LLP for non-audit services during the year has been reviewed by the Audit Committee, who are satisfied that there is no risk of the independence of the audit being compromised.

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

3 Segmental analysis

	Rental income and other income		Operating profit		Net assets	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Investment properties	15,950	17,893	15,613	17,536	205,642	202,026
Trading properties	1,256	3,820	1,162	3,659	1,292	1,216
Administration	—	—	(1,944)	(2,053)	—	—
	17,206	21,713	14,831	19,142	206,934	203,242
Short-term investments					440	—
Net assets per balance sheet					207,374	203,242

All operations and income are derived from the United Kingdom.

4 Profit on disposal of investment properties

During the year five investment properties were sold for £29.79m (2004: £51.66m), leading to a profit of £1.10m (2004: £1.53m). The tax charged to the profit and loss is £0.20m (2004: £0.26m) and £1.95m (2004: £0.60m) has been charged directly to reserves.

5 Other interest receivable and similar income

	2005 £000	2004 £000
Interest on short-term deposits and investments	1,397	1,020
Mortgage interest	21	1
	1,418	1,021

6 Interest payable and similar charges

	2005 £000	2004 £000
Debtenture stocks	4,361	5,980
Bank loans and overdrafts	—	198
	4,361	6,178

7 Exceptional interest payable

	2005 £000	2004 £000
Premium on redemption of debtenture stock	14,918	1,632

On 1 February 2005 the Group redeemed £2.40m of its 11.5% First Mortgage Debtenture Stock 2014 at a price of £142.01 per £100 of stock. A further £17.89m was redeemed on 21 February 2005 at a price of £144.56 and £13.31m was redeemed on 22 February 2005 at a price of £144.61. This exceptional item has reduced the tax charge for the current year by £4.48m.

The total amount of stock redeemed in the year was £33.60m, at a price of £48.52m, incurring a premium on redemption of £14.92m.

8 Information regarding directors and employees

	2005 £000	2004 £000
<i>(a) Directors' emoluments including pension contributions</i>		
Fees	63	76
Management remuneration and taxable benefits	635	698
Share Ownership Scheme	13	4
Pension contributions	62	50
	773	828

	Basic salary £000	Bonus £000	Fees £000	Benefits in kind £000	Pension £000	Share scheme £000	Total 2005 £000	2004 £000
<i>Executive</i>								
Rupert J Mucklow (highest paid director)	218	—	—	21	21	5	265	242
Justin Parker	206	18	—	5	21	3	253	126
Peter M Petherbridge	158	—	—	5	20	5	188	179
<i>Non-Executive</i>								
David F Austin	—	—	23	—	—	—	23	19
David C Groom	—	—	20	—	—	—	20	19
Allan J Mucklow	—	—	20	4	—	—	24	23
	582	18	63	35	62	13	773	608

Former directors (comparison only)

Albert J Mucklow		220
		828

Notes:

- There were performance related bonus payments.
- Benefits in kind relate principally to the provision of a company car and fuel benefits.
- Rupert J Mucklow and Justin Parker are members of a defined contribution pension scheme. Peter M Petherbridge has his own pension scheme to which the Group contributes.
- During the last seven years the Group operated an all employee share ownership scheme. No allocations were made in 2004 or 2005, and no future allocations will be made. The Group currently operates an Inland Revenue approved all employee Share Incentive Plan. Further details are given in the Directors' Report on page 16. During the year Rupert J Mucklow and Peter M Petherbridge each received 2,033 Ordinary shares, with a value of £6,712, at a cost to each director of £1,500 (excluding tax relief). Justin Parker received 909 ordinary shares as a free share allocation, with a value of £3,000. Non-executive directors were not eligible for the schemes.
- Peter M Petherbridge is the sole proprietor of P M Petherbridge & Co. employing his own staff and renting space at the Group's head office. For the year ended 30 June 2005 P M Petherbridge & Co. received £22,310 in respect of administration fees recharged, net of rent payable to the Group (2004: £21,500). At 30 June 2005 P M Petherbridge & Co. were holding £Nil relating to deposits (2004: £100,000). With the exception of Peter M Petherbridge, no director had any other interest in relation to the Group's business.
- There are no share option schemes.

NOTES TO THE ACCOUNTS

8 Information regarding directors and employees (continued)

	2005 Number	2004 Number
<i>(b) Staff numbers and costs</i>		
The average number of persons employed by the Group (including directors) during the year was as follows:		
Management	6	7
Administration	7	7
Property	7	7
Total employees	20	21
	2005 £000	2004 £000
The aggregate payroll costs (including directors) were as follows:		
Wages and salaries	1,166	1,194
Social security costs	143	149
Pension costs	121	107
	1,430	1,450

(c) Pension arrangements

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

Pension contributions (including directors) paid in the year ended 30 June 2005 amounted to £121,220 (2004: £106,832).

9 Taxation

	2005 £000	2004 £000
<i>(a) Analysis of tax (credit)/charge in period</i>		
Current tax		
UK Corporation tax on (losses)/profits for the period	(1,168)	3,222
Adjustments in respect of prior years	—	—
Total current tax — see note 9 (b)	(1,168)	3,222
Deferred tax		
Origination and reversal of timing differences	344	336
Deferred tax extinguished	(1,788)	(2,058)
Total deferred tax — note 17	(1,444)	(1,722)
Tax on ordinary activities	(2,612)	1,500
<i>(b) Factors affecting tax (credit)/charge in period</i>		
(Loss)/profit on ordinary activities before tax	(1,934)	13,880
(Loss)/profit on ordinary activities before tax multiplied by standard rate of UK Corporation tax of 30% (2004: 30%)	(580)	4,164
Non-deductible expenditure less non-taxable income	(10)	(283)
Other deferred tax movements	(448)	(18)
Excess of capital allowances over depreciation	(130)	(641)
Adjustments in respect of prior years	—	—
Current tax (credit)/charge for the period — see note 9 (a)	(1,168)	3,222

(c) Factors that may affect future tax charges

The directors anticipate that the current tax charge will remain significantly below the statutory rate due to the fact that capital allowances are available on the investment properties which are not depreciated. These allowances are rarely clawed back which ultimately results in the release of any deferred tax provided. Future tax charges may also be affected by any changes proposed in the consultative document 'Corporation tax reform' issued in August 2003 or the government's proposals to create real estate investment trusts (REITs).

10 Dividends

	2005 £000	2004 £000
On 7% (formerly 4.9% net) Cumulative Preference non-equity shares	47	47
On Ordinary equity shares		
Interim of 5.80p per share (2004: 5.40p)	3,480	3,239
Proposed final of 6.96p per share (2004: 6.48p)	4,175	3,888
	7,702	7,174

NOTES TO THE ACCOUNTS

11 Earnings per share and net asset value per share

Earnings per share

The basic and diluted earnings per share of 1.05p (2004: 20.56p) has been calculated on the basis of the weighted average of 59,991,990 (2004: 59,991,990) Ordinary shares and earnings, net of preference dividend, of £631,169 (2004: £12,332,502). The adjusted earnings per share has been amended from the basic and diluted earnings per share by the following:

	2005 £000	2004 £000
Earnings, net of preference dividend	631	12,332
Adjusted for:		
Profit on disposal of investment properties	(1,096)	(1,527)
Tax charged to profit and loss on disposal of investment properties	199	263
Premium on redemption of debenture stock	14,918	1,632
Tax relief on premium on redemption of debenture stock	(4,475)	(490)
Deferred tax credit	(1,444)	(1,722)
Adjusted earnings, net of preference dividend	8,733	10,488
	Number	Number
Weighted average Ordinary shares	59,991,990	59,991,990
Adjusted earnings per share	14.56p	17.48p

The Group presents an adjusted earnings per share figure as the directors consider that this is a better indicator of the performance of the Group.

There are no dilutive shares.

Net asset value

The net asset value has been calculated as follows:

	2005 £000	2004 £000
Equity shareholders' funds	206,699	202,567
	Number	Number
Equity shares in issue	59,991,990	59,991,990
Net asset value per share	345p	338p
The adjusted net asset value per share has been amended for deferred tax and the surplus on land held as trading properties as follows:		
	2005 £000	2004 £000
Equity shareholders' funds	206,699	202,567
Valuation of land held as trading properties	14,657	15,273
Book value of land held as trading properties	(1,292)	(1,216)
Deferred tax creditor	6,134	7,578
	226,198	224,202
	Number	Number
Equity shares in issue	59,991,990	59,991,990
Adjusted net asset value per share	377p	374p

12 Tangible fixed assets

(a) Group

	Freehold £000	Leasehold £000	Plant and vehicles £000	Total £000
At 1 July 2004				
At valuation	218,463	20,260	—	238,723
At cost	—	—	748	748
Additions	4,467	75	152	4,694
Disposals	(28,322)	—	(115)	(28,437)
Revaluation surplus	12,257	845	—	13,102
At 30 June 2005	206,865	21,180	785	228,830
Depreciation:				
At 1 July 2004	—	—	699	699
Charged in year	—	—	52	52
Disposals	—	—	(87)	(87)
At 30 June 2005	—	—	664	664
Net book value comprises:				
At valuation	206,865	21,180	—	228,045
At cost	—	—	121	121
At 30 June 2005	206,865	21,180	121	228,166
At 30 June 2004	218,463	20,260	49	238,772

The values of freehold and leasehold properties were revalued at 30 June 2005 on an open market basis by DTZ Debenham Tie Leung, Chartered Surveyors.

Additions to freehold and leasehold properties include capitalised interest of £Nil (2004: £Nil). The total amount of interest capitalised included in freehold and leasehold properties is £3,565,966 (2004: £3,565,966).

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

	2005 £000	2004 £000
Freehold	98,450	108,236
Leasehold	12,142	12,067
	110,592	120,303

(b) Company	Freehold £000
At valuation 1 July 2004	900
Additions	24
Revaluation surplus	576
At valuation 30 June 2005	1,500

On a historical cost basis the freehold property would be included at £58,139 (2004: £34,568).

NOTES TO THE ACCOUNTS

13 Trading properties

	2005 £000	2004 £000
Land stock	1,292	1,216

14 Debtors

	2005		2004	
	Group £000	Company £000	Group £000	Company £000
Falling due within one year				
Trade debtors	989	—	812	—
Group undertakings	—	47,568	—	58,266
Group tax debtors	—	5,706	—	3,927
Other debtors	492	—	—	—
Prepayments and accrued income	203	8	503	8
	1,684	53,282	1,315	62,201
Falling due after more than one year				
Mortgages receivable	418	—	413	—
	2,102	53,282	1,728	62,201

Included in prepayments is an amount of £Nil (2004: £246,833) relating to lease incentives which are amortised to the next break.

The mortgages are receivable on disposal of the secured properties.

15 Creditors: Amounts falling due within one year

	2005		2004	
	Group £000	Company £000	Group £000	Company £000
Deferred income in respect of rents and insurances	3,021	—	3,413	—
Trade creditors	2,076	1	2,173	6
Corporation tax	1,372	—	2,687	—
Accruals and deferred income	2,059	927	3,699	2,912
Proposed dividends	4,175	4,175	3,888	3,888
	12,703	5,103	15,860	6,806

**16 Creditors: Amounts falling
due after more than one year**

	Group and Company	
	2005	2004
	£000	£000
11 1/2% First Mortgage Debenture Stock 2014	15,903	49,500

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

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 11 1/2% 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 11 1/2% 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. During the year the Group redeemed £33.60m of the 11 1/2% First Mortgage Debenture Stock 2014 at a cost of £48.52m.

17 Provisions for liabilities and charges

Deferred tax	£000	
At 1 July 2004		7,578
Current year credit		(1,444)
At 30 June 2005		6,134
Analysis of deferred tax	2005	2004
	£000	£000
Accelerated capital allowances	6,103	7,547
Sundry timing differences	31	31
	6,134	7,578

In addition, if all of the Group's properties were sold at their revalued amount the tax payable on the capital gain would be £16.87m (2004: £17.22m). In accordance with FRS 19, no provision has been made for these amounts.

Deferred tax in the Company is not material.

NOTES TO THE ACCOUNTS

18 Share capital	2005 £000	2004 £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		
59,991,990 Ordinary shares of 25p each	14,998	14,998
Non-Equity		
675,000 Preference shares of £1 each	675	675

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.

19 Reserves

(a) Group

	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 2004	113,084	11,162	63,323	187,569
Retained loss	—	—	(7,024)	(7,024)
Surplus on revaluation	13,102	—	—	13,102
Taxation on realised revaluation gains	—	—	(1,946)	(1,946)
Realised revaluation gains	(14,069)	—	14,069	—
At 30 June 2005	112,117	11,162	68,422	191,701

(b) Company

	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 2004	866	11,162	21,830	33,858
Retained profit	—	—	1,803	1,803
Surplus on revaluation	576	—	—	576
At 30 June 2005	1,442	11,162	23,633	36,237

The profit for the year of the Company, before dividends, was £9,504,565 (2004: £9,847,885).

20 Investment in subsidiary undertakings

<i>Company</i>	2005 £000	2004 £000
Shares		
At cost	456	456
At valuation	8,777	8,777
	9,233	9,233

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

21 Financial instruments

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

The disclosures below exclude short-term debtors and creditors.

Interest rate risk and profile	2005 £000	2004 £000
Sterling financial liabilities:		
11½% First Mortgage Debenture Stock 2014	15,903	49,500
Preference shares	675	675
Fixed rate	16,578	50,175
Floating rate (not hedged)	—	—
	16,578	50,175

The weighted average interest rate on fixed rate financial liabilities at 30 June 2005 was 11.32% (2004: 11.44%). These liabilities, excluding the Preference share capital, are fixed for a weighted average period of 9 years (2004: 10 years).

Sterling financial assets:		
Floating rate (not hedged)	10,605	34,514
Fixed rate	96	92
Non-interest bearing	271	271
	10,972	34,877

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 2005 was 3.94%, fixed for a weighted average period of 1 day. There were no money market deposits as at 30 June 2004. Cash at bank is at a floating rate based on LIBOR or base rate.

Liquidity risk and maturity profile

The Group's policy for financing the business is mainly through the use of fixed rate long-term loans to manage interest rate risk. With this in mind the debt structure for the Group at 30 June 2005 was as follows:

	2005 £000	2005 %	2004 £000	2004 %
More than two years but not more than five years	—	—	—	—
More than five years	16,578	100	50,175	100
	16,578	100	50,175	100

NOTES TO THE ACCOUNTS

21 Financial instruments (continued)

The Group had undrawn revolving credit facilities of £15m at 30 June 2005, which expire in 2010. At 30 June 2004 the Group had undrawn revolving credit facilities of £15m which expired in 2005. The Group has a £10m overdraft facility (undrawn at 30 June 2004 and 30 June 2005) which expires in less than one year.

Fair values	Book Value	Fair Value	Fair value Adjustment	% of Book value
As at 30 June 2005	£000	£000	£000	
11 1/2% First Mortgage Debenture Stock 2014	15,903	22,623	6,720	42
Preference share capital	675	648	(27)	(4)
Net debt and Preference share capital	16,578	23,271	6,693	40
As at 30 June 2004	£000	£000	£000	%
11 1/2% First Mortgage Debenture Stock 2014	49,500	65,152	15,652	32
Preference share capital	675	648	(27)	(4)
Net debt and Preference share capital	50,175	65,800	15,625	31

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 2005 and 30 June 2004 respectively. The fair value of the Preference share capital has been based on its latest trade as it has not been quoted on the Daily Official List since 13 September 2002. The fair value of the revolving credit facility has been calculated by discounting expected cash flows at prevailing interest rates at the year end and is not materially different to book value.

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

22 Contingent liabilities

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

23 Commitments

	2005	2004
	£000	£000
<i>(a) Capital</i>		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	4,551	—
The amount of capital expenditure authorised in addition to the above commitments	500	—
<i>(b) Operating leases</i>		
The annual commitment under a non-cancellable operating lease is as follows:		
Operating leases for land and buildings which expire in over five years	—	—

24 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
Penbrick Limited

Trading

A & J Mucklow & Co Limited

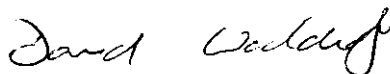
NOTICE OF MEETING

Notice is hereby given that the forty-fourth Annual General Meeting of the Company will be held at The Chamber of Commerce, 75 Harborne Road, Edgbaston, Birmingham, B15 3DH on Tuesday, 8 November 2005 at 11.00 am for the following purposes:

As Ordinary Business

- 1 To receive the report and accounts for the year ended 30 June 2005 and the reports of the directors and auditors thereon.
- 2 To approve the directors' remuneration report.
- 3 To declare a final dividend on the Ordinary shares of 6.96p per share for the year ended 30 June 2005.
- 4 To re-elect Rupert J Mucklow, who retires by rotation, as a director of the Company.
- 5 To re-elect David Groom, who retires by rotation, as a director of the Company.
- 6 To reappoint Deloitte & Touche LLP as auditors of the Company, and authorise the directors to fix their remuneration.
- 7 To transact any other ordinary business of the Company.

By order of the Board



David Wooldridge

Secretary

29 September 2005

Registered Office:

Haden Cross, Halesowen Road

Cradley Heath

West Midlands, B64 7JB

Any member of the Company entitled to attend and vote at the meeting may appoint another person or persons as his/her proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.

Accompanying this notice (for the attention of Ordinary shareholders only) is a two-way form of proxy and this proxy should be completed and returned to the Company's registrars at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to arrive not later than 48 hours before the time fixed for the meeting. Completion of a proxy will not prevent a member from attending the meeting if subsequently he/she is able to do so.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2002, the Company specifies that only those shareholders registered in the register of members of the Company at 5.00 pm on 6 November 2005 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time.

Preference shareholders are reminded that under the Company's Articles of Association they are not entitled to vote at the above meeting. The report and accounts are sent to all debenture stockholders of the Company but holders of debenture stock are not entitled to vote at the above meeting.

The following documents will be available for inspection at the registered office of the Company on any weekday (except Saturdays) during normal business hours from the date of the foregoing notice until the date of the Annual General Meeting:

- 1 A statement of all transactions of each director and of his declarable family interests in each class of the share capital and debentures of the Company and its subsidiaries.
- 2 Copies of relevant service contracts of the executive directors and the terms and conditions of employment of the non-executive directors.

Such documents will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

The final dividend, if approved, will be paid on 30 December 2005 to all Ordinary shareholders on the register on 25 November 2005.

SHAREHOLDER DIARY

Annual General Meeting

8 November 2005

Results announced

For the half year to 31 December 2005

March 2006

For the year to 30 June 2006

September 2006

Ordinary dividends

Final for 2004/2005

— announce

September 2005

— pay

December 2005

Interim for 2005/2006

— announce

March 2006

— pay

June 2006

A&J MUCKLOW
GROUP PLC

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