717658

A&J MUCKLOW
GROUP PLC

ANNUAL REPORT AND ACCOUNTS 1999

MANAGEMENT AND PROFESSIONAL ADVISERS

Directors

Albert J Mucklow ACIS
Chairman
Aged 63. Joined the Group in 1956.
Appointed Chairman in 1976.

Rupert J Mucklow BSc
Managing Director
Aged 36. Joined the Group in 1990.
Appointed executive director in 1995
and Managing Director in 1996.

David F Austin FRICS
Senior Independent Non-executive†*
Aged 60. Appointed to the Board in 1995.
A chartered surveyor and former joint senior partner of Bucknall Austin. He is Chairman of the Audit and Remuneration Committees.

David C Groom FCIB
Non-executive†*
Aged 60. Appointed to the Board in 1996.
A former regional area manager of Midland Bank in Birmingham.

Allan J Mucklow
*Non-executive *†*
Aged 64. Joined the Group in 1957.
Appointed non-executive director in 1977.

Peter M Petherbridge
Non-executive
Aged 52. Appointed to the Board in 1990.
A solicitor practising as P M Petherbridge & Co. devoting a large part of his time to the Group's business.

Senior Management

M David Folkes MCIOB
Guy J Mucklow ACIS, CFA
Stephen N Murphy BSc, FRICS
David Rampling

Secretary and Registered Office

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

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Company No. 717658

*Member of Remuneration Committee
† Member of Audit Committee

Auditors

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

Stockbrokers

Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

Albert E Sharp Securities
Temple Court
35 Bull Street
Birmingham B4 6ES

Bankers

HSBC Bank plc
The Bridge
Walsall
West Midlands WS1 1LN

Merchant Bankers

Warburg Dillon Read
2 Finsbury Avenue
London EC2M 2PP

Property Valuers

DTZ Debenham Thorpe
10 Colmore Row
Birmingham B3 2QD

Solicitors

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

Registrars

IRG plc
Bourne House
34 Beckenham Road
Beckenham, Kent BR3 4TU

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 30 June 1999.

Results

The profit earned and the dividends paid and proposed are set out in detail in the consolidated profit and loss account and notes. The net profit before taxation for the year was £20,875,315 and the taxation charge was £3,523,197.

Review of business

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

Ordinary dividends

On 1 July 1999, an interim dividend of 3·7637p per share was paid. A final dividend of 4·3284p per share is proposed. The total dividend for the year will be 8·0921p per share.

The final dividend, if confirmed, will be paid on 4 January 2000 to shareholders on the register at the close of business on 26 November 1999.

Share capital

The Company purchased on the open market a total of 1,000,000 of its own Ordinary shares for cancellation on 13 and 14 July 1998 at a price of 153p per share. A further tranche of 4,866,000 Ordinary shares were purchased for cancellation on 5 May 1999 at a price of 174p.

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

Employee share ownership scheme

On 22 September 1998 the Company adopted the A & J Mucklow Group plc Share Ownership Scheme. This is an Inland Revenue approved profit-sharing scheme, under which all employees of the Group with a minimum period of service of five years (or employees with lesser service at the Board's absolute discretion) are entitled to receive a limited number of free shares in the Company. The amount of shares receivable by each employee is regulated by tax legislation and, subject to this, will be related to salary.

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

During the year, employees of the Company (including the two executive directors — see note 6) were awarded 40,831 shares with a value of £60,414.

Future prospects

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

Principal activities

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

Creditors payment policy

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

The number of creditor days for the Group was 16 (1998: 21); however, property acquisitions and similar transactions are such that any calculation of the number of creditor days is of limited use.

Year 2000 and Euro

The "Millennium Bug" or "Year 2000 issue" refers to potential problems in the processing of data or operation of electronic equipment affected by the transition from 1999 to 2000.

The Group is continuing its millennium compliance programme to ensure minimal disruption to its business from the date change.

The Group's internal computer systems have been upgraded in the normal course of business. To date, only minimal costs have been incurred by the Group in seeking to achieve millennium compliance.

Our managing agents, DTZ Debenham Thorpe, have visited all of the investment properties which we own to carry out a risk assessment. No problems have been identified to date. Where tenancies are let on full repairing leases, we have requested the relevant tenants confirmation as to whether they have taken steps to ensure compliance.

An internal review has highlighted those suppliers who are considered necessary for our business to continue largely unaffected over the period. These suppliers have been written to for assurances that their systems will not prevent continuity of their service. No responses received have given cause for concern.

We have prepared a contingency plan in case events do not proceed as anticipated and we are monitoring events as and when they occur.

The Group cannot give assurances that no problems will occur, but the directors believe that the steps taken will reduce the impact of any "Millennium Bug" problems on the business. Any cost to the Group is not likely to be significant.

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 a referendum, the Board does not consider that further detailed work should be carried out at this stage but continues to monitor events to see if steps need to be taken.

Environmental policy

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

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

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

Donations

No political contributions were made during the year and donations to charities amounted to £2,759 (1998: £1,201).

Directors

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

David C Groom, non-executive director, and Rupert J Mucklow, Managing Director, retire by rotation and, being eligible, offer themselves for re-election.

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

DIRECTORS' REPORT

Directors' shareholdings

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

	Ordinary shares at 30 June 1999	Ordinary shares at 30 June 1998
Albert J Mucklow	1,747,574(a)	2,110,024(a)
Rupert J Mucklow	975,551	943,254
David F Austin	6,705	3,510
David C Groom	3,000	3,000
Allan J Mucklow	4,012,799	4,012,799
Peter M Petherbridge	2,612,168(b)	2,612,168(b)

The holdings marked (a) and (b) included non-beneficial interests in 1,000,000 and 2,598,402 Ordinary shares respectively.

Rupert J Mucklow sold 4,515 Ordinary shares at 173·5p on 7 July 1999 and purchased 5,817 Ordinary shares at 174p on the same date. There were no other movements in any of the directors' shareholdings between 1 July 1999 and 13 September 1999.

None of the above directors had any beneficial interest in the Company's Preference shares or Debenture Stocks at either 30 June 1999 or 13 September 1999.

Substantial shareholdings

The following shareholders have notified the Company of an interest of 3% or more in the Ordinary share capital of the Company as at 30 June 1999.

	Ordinary shares	Percentage holding
Prudential Corporation plc	7,807,832	8·50%
Britannic Assurance plc	4,898,850	5·33%
Framlington Investment Management Limited	2,950,000	3·21%
Wesleyan Assurance Society	2,820,000	3·07%
Mrs M A Hickman	2,769,884	3·02%

Properties

A professional review of the value of the Group's industrial and commercial properties was carried out by DTZ Debenham Thorpe at 30 June 1999.

This revaluation has been incorporated in the accounts resulting in an increase of £19·42m in the revaluation reserve.

Going concern

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

Close company provisions

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

Auditors

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

By order of the Board

Derick Bromley

Secretary

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

30 September 1999

STATEMENT OF CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

The Report of the Board to the Shareholders on Directors' Remuneration is set out on page 23.

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

Accountability and audit
Detailed reviews of the performance and financial position are included in the Chairman's statement on pages 2 and 3 and the Managing Director's report on pages 4 to 11 to present a balanced and understandable assessment of the Group's position and prospects. The directors' responsibilities for the accounts are described on page 24.

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

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

STATEMENT OF CORPORATE GOVERNANCE

Statement on internal financial control (continued)

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

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

4. **Computer systems**
   The Group is reliant on an effective computer system to operate its business. The system that it uses is both modern and simple, being a file server based network which operates 17 PCs. The principal operating software is provided by Estate Computer Systems, a leading supplier of generic software to the property management industry. It is fully integrated which provides comfort on the integrity of data transfer between the accounts and property management suites. The Group has a contingency plan in place to cater for complete loss or failure of its own data processing facility and has taken the necessary steps to ensure the security of data on the network. Details of the Group's Year 2000 compliance can be found on page 19.

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

Exceptions to Compliance with Combined Code

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. Except for the items outlined below, the company has complied throughout the accounting period ended 30 June 1999 with the provisions set out in Section 1 of the Code. The exceptions are:

Code Provisions

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

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

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

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

C.2·1 As there was no requirement at the date of the 1998 Annual General Meeting there was no detailed announcement of the proxy vote results. We will be following the current recommendation in announcing results of proxy votes at all future general meetings.

C.2·4 Under the recommendations, the notice of Annual General Meeting and related papers should be sent out at least 20 working days prior to the meeting. The Group will be complying with that recommendation for the current and future meetings. For the 1998 Annual General Meeting the Group met the Companies Act requirement in providing 21 clear days' notice.

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

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

BOARD REPORT ON DIRECTORS' REMUNERATION

Remuneration Committee

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

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

Executive directors' remuneration

The main components of the executive directors' remuneration are:

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

Albert J Mucklow withdrew his pension from the Standard Life Assurance Company scheme (referred to at note 6 to the accounts) during the year. Albert J Mucklow has arranged his own pension provision, towards which the Group makes no contributions.

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

Service contracts

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

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

Pensions

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

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

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

David F Austin
Chairman of the Remuneration Committee
30 September 1999

D. F. Austin

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

(c) followed applicable accounting standards.

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

AUDITORS' REPORT

to the Members of A & J Mucklow Group plc

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

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including, as described on page 24, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on pages 21 and 22 reflects the compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the corporate governance procedures or the Group's internal controls.

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

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
and Registered Auditors
30 September 1999

Birmingham

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 June 1999

	Notes	1999 £000	1998 £000
Rental income		22,465	21,487
Operating expenses		(2,519)	(2,411)
Other income		998	406
Operating profit	2 & 3	20,944	19,482
Profit on disposal of investment properties		7,340	755
Profit on ordinary activities before interest		28,284	20,237
Other interest receivable and similar income	4	176	648
Interest payable and similar charges	5	(7,585)	(7,522)
Profit on ordinary activities before taxation		20,875	13,363
Taxation	7	(3,523)	(2,972)
Profit for the financial year		17,352	10,391
Dividends (including non-equity dividends)	8	(7,467)	(7,343)
Retained profit for the financial year	16	9,885	3,048
Earnings per share	9	18·05p	10·61p

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 1999

	Notes	1999 £000	1998 (as restated) £000
Fixed assets			
Tangible	10	**266,212**	267,478
Current assets			
Trading properties	11	**1,747**	1,944
Debtors — due within one year	12	**1,142**	3,557
— due after more than one year	12	**614**	1,615
Cash at bank and in hand		**40,831**	5,991
		44,334	13,107
Creditors: Amounts falling due within one year	13	**(31,212)**	(20,545)
Net current assets/(liabilities)		**13,122**	(7,438)
Total assets less current liabilities		**279,334**	260,040
Creditors: Amounts falling due after more than one year	14	**(65,000)**	(65,000)
		214,334	195,040
Capital and reserves			
Non-equity share capital	15	**675**	675
Equity share capital	15	**22,944**	24,410
Revaluation reserve	16	**96,331**	100,801
Capital redemption reserve	16	**3,216**	1,750
Profit and loss account	16	**91,168**	67,404
Shareholders' funds		**214,334**	195,040
Attributable to equity shareholders		**213,659**	194,365
Attributable to non-equity shareholders		**675**	675
		214,334	195,040

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 30 September 1999

The notes attached are an integral part of the accounts.

PARENT COMPANY BALANCE SHEET

at 30 June 1999

	Notes	1999 £000	1998 £000
Fixed assets			
Tangible	10	725	710
Investments	18	9,163	9,163
		9,888	9,873
Current assets			
Debtors — due within one year	12	138,321	127,999
— due after more than one year	12	—	973
		138,321	128,972
Creditors: Amounts falling due within one year	13	(19,658)	(9,370)
Net current assets		118,663	119,602
Total assets less current liabilities		128,551	129,475
Creditors: Amounts falling due after more than one year	14	(65,000)	(65,000)
		63,551	64,475
Capital and reserves			
Non-equity share capital	15	675	675
Equity share capital	15	22,944	24,410
Revaluation reserve	16	701	686
Capital redemption reserve	16	3,216	1,750
Profit and loss account	16	36,015	36,954
Shareholders' funds		63,551	64,475
Attributable to equity shareholders		62,876	63,800
Attributable to non-equity shareholders		675	675
		63,551	64,475

Albert J Mucklow
Rupert J Mucklow

Approved by the Board on 30 September 1999

The notes attached are an integral part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 1999

	Notes		1999 £000		1998 £000
Cash flow from operating activities	1		22,555		17,449
Returns on investments and servicing of finance					
Interest received		219		549	
Interest paid		(7,634)		(7,581)	
Non-equity dividends paid		(17)		(33)	
			(7,432)		(7,065)
Taxation					
Corporation tax paid		(3,271)		(2,872)	
Corporation tax refunded		753		473	
			(2,518)		(2,399)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(13,654)		(16,057)	
Sales of tangible fixed assets		41,295		11,465	
			27,641		(4,592)
Equity dividends paid			(3,891)		(7,000)
Financing					
Market purchases of equity share capital		(10,015)		—	
Revolving credit facility		8,500		—	
			(1,515)		—
Increase/(decrease) in cash in the period	2		34,840		(3,607)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

1 Reconciliation of operating profit to cash flow from operating activities

	1999 £000	1998 (as restated) £000
Operating profit	20,944	19,482
Depreciation	117	137
(Profit)/loss on sale of fixed assets	(12)	3
Decrease in stocks	196	75
(Increase)/decrease in debtors	(299)	1,000
Deposit for the acquisition of property at Mucklow Hill, Halesowen	1,950	(1,950)
Decrease in creditors	(341)	(1,298)
	22,555	17,449

2 Reconciliation of movement in cash to movement in net debt

Increase/(decrease) in cash in the period	34,840	(3,607)
Increase in borrowing in the period	(8,500)	—
Net debt as at 1 July	(59,009)	(55,402)
Net debt as at 30 June	(32,669)	(59,009)

3 Analysis of net debt

	1 July 1998 £000	Movement £000	30 June 1999 £000
Cash	5,991	34,840	40,831
Revolving credit facility	—	(8,500)	(8,500)
Debentures due after one year	(65,000)	—	(65,000)
	(59,009)	26,340	(32,669)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1999 £000	1998 £000
Profit for the financial year	**17,352**	10,391
Unrealised surplus on revaluation of properties	**19,424**	20,984
Total gains and losses for the financial year	**36,776**	31,375

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1999 £000	1998 £000
Reported profit on ordinary activities before taxation	**20,875**	13,363
Realisation of property revaluation gains of previous years	**23,894**	8,221
Historical cost profit on ordinary activities before taxation	**44,769**	21,584
Historical cost profit for the year retained after taxation and dividends	**33,779**	11,269

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £000	1998 £000
Profit for the financial year	**17,352**	10,391
Dividends	**(7,467)**	(7,343)
Retained profit for the financial year	**9,885**	3,048
Unrealised surplus on revaluation of properties	**19,424**	20,984
Market purchases of equity share capital	**(10,015)**	—
Net increase in shareholders' funds	**19,294**	24,032
Shareholders' funds at 1 July	**195,040**	171,008
Shareholders' funds at 30 June	**214,334**	195,040

NOTES TO THE ACCOUNTS

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with all applicable accounting standards, except that, as explained below, capital grants received relating to investment properties are deducted from the cost of properties, rather than being amortised to the profit and loss account. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, investment properties are not depreciated. Since the preparation of the financial statements for the previous year end the Group has adopted Financial Reporting Standards up to and including FRS 14. The adoption of these standards has not had any effect on current or prior years, with the exception of Financial Reporting Standard No. 12, "Provisions, contingent liabilities and contingent assets". The effect of the introduction of this standard is explained elsewhere in these notes.

Basis of consolidation

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

Rental income

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

Profits on sale of investment and trading properties

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

Cost of properties

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

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

Valuation of properties

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

Depreciation

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

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

1 Accounting policies (continued)

Government grants

Capital grants received relating to the cost of building or refurbishing investment properties are deducted from the cost of the relevant property. This is not in accordance with Statement of Standard Accounting Practice No. 4, "Accounting for government grants", but is considered appropriate in order to present a true and fair view of the Group's investment in such non-depreciating assets. The impact is not material on the Group's results. Revenue grants are deducted from the related expenditure in accordance with Statement of Standard Accounting Practice No. 4.

Deferred taxation

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

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

In accordance with the requirements of Financial Reporting Standard No. 10, "Goodwill and intangible assets", the Group has amended its policy on purchased goodwill. Goodwill arising on acquisition is now, in accordance with the standard, capitalised and amortised on a straight line basis over the estimated useful life of the acquisition. A maximum life of 20 years will be used. Under the Group's previous policy £134,728 of goodwill has been written off to the profit and loss account as a matter of accounting policy. This amount has not been restated and no reinstatement figure is required. This would be credited to the profit and loss account on disposal of the business to which it related.

Provisions

Following the implementation of Financial Reporting Standard No. 12, the Group has reclassified amounts previously shown as provisions in the 1998 accounts of £520,408 and £299,500 into accruals and deferred income, and other creditors respectively. This has not resulted in any effect on the current year or prior year profit.

2 Rental income and other income and operating profit

	1999 £000	1998 £000
(a) Operating profit		
Gross rental income	**22,465**	21,487
Property outgoings	**(596)**	(460)
Net rental income	**21,869**	21,027
Sale of trading properties	**1,348**	796
Cost of sales of trading properties	**(350)**	(390)
Other income	**998**	406
Administration expenses	**(1,923)**	(1,951)
Operating profit	**20,944**	19,482
(b) Profit on ordinary activities before taxation is stated after charging the following:		
Operating leases — land and buildings	**43**	43
Depreciation	**117**	137
Auditors' remuneration:		
Audit	**23**	18
Other services	**33**	20

3 Segmental analysis

	Rental income and other income		Operating profit		Net assets	
	1999	1998	1999	1998	1999	1998
	£000	£000	£000	£000	£000	£000
Investment properties	**22,465**	21,487	**21,869**	21,027	**172,587**	185,096
Trading properties	**1,348**	796	**998**	406	**1,747**	1,944
Administration	—	—	**(1,923)**	(1,951)	—	—
	23,813	22,283	**20,944**	19,482	**174,334**	187,040
Short-term investments					**40,000**	8,000
Net assets per balance sheet					**214,334**	195,040

4 Other interest receivable and similar income

	1999 £000	1998 £000
Interest on short-term deposits and investments	**117**	583
Mortgage interest	**32**	24
Other	**27**	41
	176	648

5 Interest payable and similar charges

	1999 £000	1998 £000
Debenture stocks	**7,562**	7,562
Bank loans and overdrafts	**133**	20
	7,695	7,582
The total has been allocated as follows:		
charged to revenue	**7,585**	7,522
capitalised to cost of properties in the course of development	**110**	60
	7,695	7,582

6 Information regarding directors and employees

	1999 £000	1998 £000
(a) Directors' emoluments including pension contributions		
Fees	60	52
Management remuneration and taxable benefits	306	284
Share scheme	16	—
Pension contributions	16	14
	398	350

	Basic salary £000	Fees £000	Benefits in kind £000	Pension £000	Share scheme £000	Total 1999 £000	Total 1998 £000
Executive							
Albert J Mucklow							
(highest paid director)	180	15	17	—	8	220	206
Rupert J Mucklow	95	—	8	16	8	127	99
Non-Executive							
David F Austin	—	15	—	—	—	15	13
David C Groom	—	15	—	—	—	15	13
Allan J Mucklow	—	15	2	—	—	17	15
Peter M Petherbridge	—	—	4	—	—	4	4
	275	60	31	16	16	398	350

Notes:

i) There were no profit related salary payments.

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

iii) One director (1998: Two directors) were members of a defined contribution pension scheme.

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

v) Peter M Petherbridge is in business on his own account under the style of P M Petherbridge & Co., and that organisation provides legal services to the Group and receives fees from the Group in the normal course of business. The fees incurred during the year under review amounted to £207,908 (1998: £187,032). At 30 June 1999 Peter M Petherbridge was, in his capacity as solicitor to the Group, holding £77,574 relating to retentions and deposits (1998: £1,950,000).

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

vi) A consultancy fee of £45,000 was paid during the year to G Clive Evans, a former director of the Company. This was the third and final instalment under a three-year consultancy agreement.

vii) There are no share option schemes.

NOTES TO THE ACCOUNTS

6 Information regarding directors and employees (continued)

	1999 Number	1998 Number
(b) Staff numbers and costs		
The average number of persons employed by the Group (including directors) during the year was as follows:		
Management	**6**	6
Administration	**6**	6
Property	**8**	8
Total employees	**20**	20

The aggregate payroll costs (including directors) were as follows:	£000	£000
Wages and salaries	**810**	758
Social security costs	**82**	74
Pension costs	**80**	79
	972	911

(c) Pension arrangements

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

Pension contributions (including directors) paid in the year ended 30 June 1999 amounted to £79,870 (1998: £78,523).

7 Taxation

	1999 £000	1998 £000
Taxation based on profit for the year:		
Corporation tax at a rate of 30·75% (1998: 31%)	**3,523**	3,048
Adjustment in respect of prior year	—	(76)
	3,523	2,972

The taxation charge is disproportionately low, principally due to the low taxable exceptional profit on disposal of investment property and capital allowances (deferred tax is not provided). Tax on the disposal of investment property amounted to £300,000 (1998: Nil).

8 Dividends

On 7% (formerly 4·9% net) Cumulative Preference non-equity shares	**40**	33
On Ordinary equity shares		
Interim of 3·7637p per share (1998: 3·5011p)	**3,454**	3,419
Proposed final of 4·3284p per share (1998: 4·0264p)	**3,973**	3,891
	7,467	7,343

9 Earnings per share

Calculated on the basis of the weighted average of 95,916,228 (1998: 97,641,384) Ordinary shares and earnings, net of preference dividend, of £17,311,955 (1998: £10,357,541). There are no dilutive shares.

10 Tangible fixed assets

(a) Group

	Freehold £000	Leasehold £000	Plant and vehicles £000	Total £000
At 1 July 1998				
At valuation	244,430	22,840	—	267,270
At cost	—	—	763	763
Additions	12,692	—	201	12,893
Disposals	(33,386)	—	(164)	(33,550)
Revaluation surplus	18,459	965	—	19,424
At 30 June 1999	**242,195**	**23,805**	**800**	**266,800**
Depreciation:				
At 1 July 1998	—	—	555	555
Charged in year	—	—	117	117
Disposals	—	—	(84)	(84)
At 30 June 1999	**—**	**—**	**588**	**588**
Net book value comprises:				
At valuation	242,195	23,805	—	266,000
At cost	—	—	212	212
At 30 June 1999	**242,195**	**23,805**	**212**	**266,212**
At 30 June 1998	244,430	22,840	208	267,478

The values of freehold and leasehold properties were reviewed at 30 June 1999 on an open market basis by DTZ Debenham Thorpe.

Additions to freehold properties include capitalised interest of £110,090 (1998: £59,496).

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

	1999 £000	1998 £000
Freehold	**148,777**	145,577
Leasehold	**15,556**	15,556
	164,333	161,133

(b) Company	Freehold £000
At valuation 1 July 1998	**710**
Revaluation surplus	**15**
At valuation 30 June 1999	**725**

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

11 Trading properties

	1999 £000	1998 £000
Land stock	**1,747**	1,944

NOTES TO THE ACCOUNTS

12 Debtors	1999		1998	
	Group	Company	Group	Company
	£000	£000	£000	£000
Falling due within one year				
Trade debtors	**879**	—	541	—
Deposit for property acquisition	—	—	1,950	—
Group undertakings	—	**134,666**	—	127,999
ACT recoverable	**50**	**1,345**	799	—
Group relief receivable	—	**2,310**	—	—
Prepayments and accrued income	**213**	—	267	—
	1,142	**138,321**	3,557	127,999
Falling due after more than one year				
ACT recoverable	—	—	973	973
Mortgages receivable	**614**	—	642	—
	1,756	**138,321**	5,172	128,972

The ACT receivable amount of £1,344,941 has been netted against the Corporation tax liability as disclosed in note 13. In the Group's preliminary announcement the ACT receivable was included in debtors.

The mortgages are receivable on disposal of the secured properties.

13 Creditors: Amounts falling due within one year	1999		1998	
	Group	Company	Group as restated	Company
	£000	£000	£000	£000
Rents and insurances in advance	**4,344**	—	4,726	—
Trade creditors	**1,940**	—	1,782	—
Corporation tax	**3,576**	**12**	4,292	1,845
Accruals and deferred income	**5,102**	**3,696**	5,554	3,634
Other creditors	**300**	—	300	—
Revolving credit facility	**8,500**	**8,500**	—	—
Proposed dividends	**7,450**	**7,450**	3,891	3,891
	31,212	**19,658**	20,545	9,370

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

Following the receipt from the sale of the Saltley Business Park, the £8·5 million drawdown of the revolving credit facility with HSBC Bank plc was repaid on 2 July 1999.

14 Creditors: Amounts falling due after more than one year

	Group and Company 1999 £000	1998 £000
13¼% First Mortgage Debenture Stock 2000/05	**5,000**	5,000
11½% First Mortgage Debenture Stock 2014	**60,000**	60,000
	65,000	65,000

Both of the Mortgage Debenture Stocks are repayable after more than 5 years. The 11½ per cent 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 13¼ per cent First Mortgage Debenture Stock 2000/05 is secured on certain freehold properties.

The Debenture Stocks are redeemable at par on their respective final redemption dates or in the case of the 13¼ per cent Stock at the Company's option between the earlier redemption and the final redemption date. The Company may purchase stock of either issue at any time in the market or by tender.

15 Share capital

	1999 Authorised £000	1999 Allotted, called up and fully paid £000	1998 Authorised £000	1998 Allotted, called up and fully paid £000
Non-equity				
675,000 7% (formerly 4·9% net)				
Cumulative Preference shares of £1 each	**675**	**675**	675	675
Equity				
91,775,384 (1998: 97,641,384)				
Ordinary shares of 25p each	**22,944**	**22,944**	24,410	24,410
25,524,616 (1998: 19,658,616)				
Ordinary shares of 25p each	**6,381**	**—**	4,915	—
	30,000	**23,619**	30,000	25,085

The Company purchased on the open market a total of 1,000,000 of its own Ordinary shares for cancellation on 13 and 14 July 1998 at a price of 153p per share. A further tranche of 4,866,000 Ordinary shares were purchased for cancellation on 5 May 1999 at a price of 174p per share.

7% Cumulative Preference shares
The Preferences 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 would entitle the holder to repayment of the capital paid up plus a premium and any arrears of dividend (net of tax at standard rate). 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 standard rate tax).

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

NOTES TO THE ACCOUNTS

16 Reserves

(a) Group	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 1998	100,801	1,750	67,404	169,955
Retained profit	—	—	9,885	9,885
Market purchases of equity share capital	—	1,466	(10,015)	(8,549)
Surplus on revaluation	19,424	—	—	19,424
Realised revaluation gains	(23,894)	—	23,894	—
At 30 June 1999	**96,331**	**3,216**	**91,168**	**190,715**

(b) Company	Revaluation reserve £000	Redemption reserve £000	Profit and loss account £000	Total £000
At 1 July 1998	686	1,750	36,954	39,390
Retained profit	—	—	9,076	9,076
Redemption of equity share capital	—	1,466	(10,015)	(8,549)
Surplus on revaluation	15	—	—	15
At 30 June 1999	**701**	**3,216**	**36,015**	**39,932**

The profit for the year of the Company, before dividends, was £16,543,016 (1998: £7,865,751).

17 Deferred taxation

No deferred tax has been provided. The amount of unprovided deferred tax at 30% (1998: 31%) can be analysed as follows:

	1999 £000	1998 £000
Accelerated capital allowances	**10,648**	10,181
Short-term timing difference	—	(205)
Surplus on revaluation	**13,940**	9,863
	24,588	19,839

18 Investment in subsidiary undertakings

	1999 £000	1998 £000
Shares		
At cost	**386**	386
At valuation	**8,777**	8,777
	9,163	9,163

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

19 Financial instruments

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

The disclosures below exclude short-term debtors and creditors.

Interest rate risk and profile	**1999 £000**	**1998 £000**
Sterling financial liabilities:		
Fixed rate	**65,675**	65,675
Floating rate (not hedged)	**8,500**	—
	74,175	65,675

The weighted average interest rate on fixed rate financial liabilities at 30 June 1999 was 11·59% (1998: 11·57%). These liabilities, excluding the preference share capital, are fixed for a weighted average period of 13·9 years (1998: 14·9 years).

Sterling financial assets:		
Floating rate (not hedged)	**40,904**	6,061
Fixed rate	**163**	157
Non-interest bearing	**378**	415
	41,445	6,633

Financial assets are cash at bank and in hand, short-term cash deposits and mortgages receivable.

Liquidity risk and maturity profile

As stated in the operating review, the Group's policy for financing the business is mainly through the use of fixed rate long-term loans. With this in mind the debt structure for the Group at 30 June 1999 was as follows:

	1999 £000	**1999 %**	**1998 £000**	**1998 %**
In less than one year	8,500	11	—	—
In more than five years	65,675	89	65,675	100
	74,175	**100**	65,675	100

At 30 June 1999 there were £11·5 million of undrawn revolving credit facilities available to the Group which will expire in more than five years. Following the sale of Saltley Business Park and repayment of the £8·5 million drawdown after the year-end this facility now amounts to £20 million. The £8.5 million liability had a rate of three month LIBOR plus 0.85% at 30 June 1999.

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

As at 30 June 1998	**£000**	**£000**	**£000**	**%**
13¼% First Mortgage Debenture Stock 2000/05	5,000	5,500	500	10
11½% First Mortgage Debenture Stock 2014	60,000	87,300	27,300	46
Preference share capital	675	560	(115)	(17)
Net debt and Preference share capital	65,675	93,360	27,685	42

The fair values of the debenture stocks and preference share capital are based on the mid price at the close of business of those instruments as sourced from the Daily Official List for 30 June 1999 and 1998 respectively.

NOTES TO THE ACCOUNTS

20 Contingent liabilities

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

21 Commitments

	1999 £000	1998 £000
(a) Capital		
The amount of outstanding commitments for capital expenditure contracted for but not provided for in the consolidated balance sheet	**1,386**	1,950
The amount of capital expenditure authorised in addition to the above commitments	**850**	4,800
(b) Operating leases		
The annual commitment under a non-cancellable operating lease is as follows:		
Operating leases for land and buildings which expire in over five years	**43**	33

22 Subsidiary undertakings

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

Property investment and development

Barr's Industrial Limited

A & J Mucklow (Birmingham) Limited

A & J Mucklow (Investments) Limited

A & J Mucklow (Properties) Limited

Trading

A & J Mucklow & Co Limited