MUCKLOW

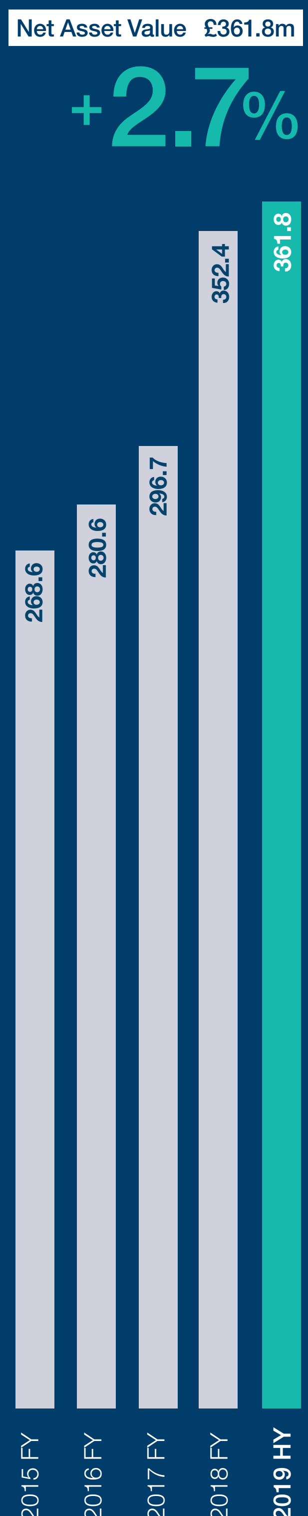
A & J Mucklow Group plc

Half-Yearly Report for the six months to 31 December 2018

Stock Code: MKLW

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 selectively to develop and invest in modern industrial and commercial buildings in prominent locations around the Midlands.

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



Financial Summary

for the six months ended 31 December 2018

Income Statement

	Six months ended 31 December 2018	Six months ended 31 December 2017
Underlying pre-tax profit[1]	**£8.5m**	£8.0m
Statutory pre-tax profit	**£17.2m**	£29.9m
EPRA EPS[1]	**13.45p**	12.88p
Basic EPS	**27.14p**	47.36p
Interim dividend per share	**10.48p**	10.18p

Balance sheet

	31 December 2018	30 June 2018
Net asset value	**£361.8m**	£352.4m
EPRA NAV per share[1]	**572p**	559p
Basic NAV per share	**572p**	557p
Net debt	**£69.2m**	£71.0m
Net debt to equity gearing	**19%**	20%

Property portfolio

	31 December 2018	30 June 2018
Vacancy rate	**2.4%**	2.8%
Portfolio value[2]	**£443.3m**	£433.5m
Valuation gain	**£8.7m**	£49.7m
Initial yield on investment properties	**5.8%**	5.6%
Equivalent yield	**6.3%**	6.4%

The interim dividend of 10.48p per share (2017: 10.18p) consists of two quarterly dividends of 5.24p each.

1. An alternative performance measure. The Group uses a number of financial measures to assess and explain its performance, some of which are considered to be alternative performance measures as they are not defined under IFRS. The directors consider that this further analysis of our performance gives shareholders a useful comparison of the underlying performance for the periods shown, consistent with other companies in the sector. For further details, see the tables in note 8 and note 9.

2. See note 10.

Overview

Financial Statements

Directors

Rupert Mucklow BSc
Chairman/CEO‡

David Wooldridge FCCA ACIS
Finance Director

Ian Cornock MRICS
Senior Independent Non-Executive*†‡

Stephen Gilmore LLB
Independent Non-Executive*†‡

Peter Hartill FCA
Independent Non-Executive*†‡

James Retallack
Independent Non-Executive*†‡

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

See more information online at:
www.mucklow.com

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Chairman's Statement

Rupert Mucklow, Chairman

Half-Year to 31 December 2018

I am pleased to report another good performance by the Group for the six months ended 31 December 2018.

Occupancy levels have remained high and our rent roll has continued to grow, mainly on the back of reletting space and achieving higher rental levels, particularly from our industrial and logistics properties. This has resulted in further improvements in underlying pre-tax profit and net asset value per share.

Results

The underlying pre-tax profit*, which excludes revaluation movements and profit on sale of investment and trading properties, was £0.5m higher at £8.5m (31 December 2017: £8.0m).

Statutory pre-tax profit for the half year was £17.2m (31 December 2017: £29.9m), which included a revaluation surplus of £8.7m (31 December 2017: revaluation surplus of £14.1m and profit on disposal of investment properties of £7.7m).

EPRA earnings per ordinary share increased by 4.4% to 13.45p (31 December 2017: 12.88p).

EPRA net asset value per ordinary share increased by 13p to 572p (30 June 2018: 559p).

Shareholders' funds rose to £361.8m (30 June 2018: £352.4m), while loan to value (LTV) remained low at 16% (30 June 2018: 16%).

Dividend

The Directors have declared an interim dividend of 10.48p per ordinary share, an increase of 3% over last year (31 December 2017: 10.18p). The dividend will be paid as a Property Income Distribution and split into two quarterly dividends of 5.24p each. The first quarterly dividend will be paid on 15 April 2019 to shareholders on the register at the close of business on 15 March 2019 and the second quarterly dividend will be paid on 15 July 2019 to shareholders on the register at the close of business on 14 June 2019.

Property Review

Our occupancy rate at 31 December 2018 reached another record high of 97.6% (30 June 2018: 97.2%), with a further 1.0% of space reserved. The level of enquiries for our existing industrial and warehouse space in the Midlands remained steady during the first six months of our financial year, despite uncertainty over Brexit. However, occupiers with unsatisfied requirements have become noticeably more cautious about committing to future long-term developments on a pre-let basis.

Property yields and values also remained stable in our first half year. We did not acquire any investment properties, but started to see a reduction in the number of investors competing for industrial property and a few more opportunities becoming available. However, our main focus during the period, was actively to manage our industrial assets, to grow rental income and to commence the first phase of development at Mucklow Park, Tyseley, Birmingham.

Industrial and logistics properties represent approximately 70% of our total property investment portfolio, with a current value of around £300m. We own 3.2m sq ft of predominantly modern industrial and warehouse space, mainly located in the Midlands and built in the last 25 years. The industrial portfolio currently generates gross rental income of around £17.9m per annum (average rent per sq ft £5.73) and has an estimated rental value (ERV) of £19.7m per annum (average rent per sq ft £6.14).

Our industrial and logistics properties have benefited from steady rental growth over the last couple of years and we expect to achieve further rises in ERVs, as we continue to set higher rental levels on new lettings, rent reviews and lease renewals over the next 5 years. The highest rental level so far achieved on an average sized industrial unit of 15,000 sq ft in Birmingham is currently £8.25 psf.

In our first half year, we agreed 11 new lettings, 2 lease renewals and 4 rent reviews on 0.23m sq ft of industrial space with a combined new rent of £1.36m pa. This added approximately £0.6m pa to our rent roll, of which £0.2m pa was rental growth. The average rental growth achieved on our industrial properties during the first six months was 16.7%, approximately 3.4% higher than our ERVs.

Construction of the first phase at Mucklow Park, Tyseley, commenced in November 2018 and will comprise 8 industrial units totalling 135,000 sq ft. Approximately 45% of the space has been pre-let, with completion of the development anticipated in October 2019. The development should generate approximately £0.95m of rent per annum (forecast average rent £7.10 psf).

Property Valuation

Cushman & Wakefield revalued our property portfolio at 31 December 2018. The investment properties and development land were valued at £443.3m (30 June 2018: £433.5m), recognising a revaluation gain of £8.7m (2.0%).

The initial yield on the investment properties was 5.8% (30 June 2018: 5.6%). The equivalent yield was 6.3% (30 June 2018: 6.4%).

Cushman & Wakefield also revalued our trading properties at 31 December 2018. The total value was £2.0m, which showed an unrecognised surplus of £1.5m against book value.

Finance

Total net borrowings at 31 December 2018 were £69.2m (30 June 2018: £71.0m), whilst unutilised banking facilities were £45.0m (30 June 2018: £45.0m). Net debt to equity gearing and LTV at 31 December 2018 were 19% and 16% (30 June 2018: 20% and 16%).

Management Changes

The Board announced some changes at Executive Director level in November 2018, as part of our succession planning for the business, so as to provide continuity and stability in leadership for the Company in the future.

The changes were triggered by my decision to start relinquishing my day to day duties, having served 24 years as an Executive Director, the last 15 years as Executive Chairman, running the Group jointly with Justin Parker, Managing Director, who has now left the Company.

The Board is looking to recruit a CEO who will combine both Justin's and my executive roles and bring new skills and opportunities to the business. I will undertake the role of Managing Director, in addition to Executive Chairman, until a new CEO has been appointed and has settled in, after which I will assume the role of Non-Executive Chairman.

Justin and I have enjoyed working together for the last 15 years and are both proud of what we have achieved, but the Board feels that now is the right time to restructure our management team and prepare the Group for the longer term. My thanks go to Justin for his loyal service and contribution made over the years and I and the Board wish him every success for the future.

Principal Risks and Uncertainties

The process for identifying, assessing and reviewing the risks faced by the Group is described in the Principal Risks and Uncertainties section on pages 18 and 19 of the 2018 annual report and financial statements, which is available on the Company's website.

These risks comprise tenant default; changes in demand for space and market pricing affecting value in the investment portfolio; reduced availability or increased cost of debt finance; interest rate sensitivity; REIT compliance; recruitment and retention of people; speculative development exposure on lettings; cost overruns on contracts; inability to acquire land and holding too much land for development.

Other than the evolving risks around Brexit, in the view of the Board these principal risks and uncertainties are equally applicable to the remaining six months of the financial year as they were to the six months under review.

The Board considers that there are no significant elements of seasonality or cyclicality in the underlying operations of the business.

Outlook

The Company is in very good health, with a virtually fully let property portfolio valued at £443.3m and a low LTV of 16%. Prospects for the second half year are encouraging, with further rental growth expected, and so far, it would appear that our existing industrial and logistics properties have not been adversely affected by the current uncertainty caused by the Brexit negotiations.

We are, however, mindful of the fact that leaving the European Union may cause some economic and political volatility, which could have an impact on our business, in terms of loss of tenants, changes in yields and ERVs. However, the Group's portfolio of quality properties, geographically focused on the Midlands, with a diverse tenant base and high occupancy rate, coupled with low gearing and long-term fixed rate debt facilities, gives the directors confidence that our business model provides some protection against these risks.

We will continue to monitor the situation and adapt our strategy accordingly, if we feel it necessary.

Rupert Mucklow
Chairman
11 February 2019

* Excludes the profit on disposal of investment, development and trading properties, the revaluation of investment and development properties and derivative financial instruments, capitalised interest and early repayment costs. See note 8.

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Group Condensed Statement of Comprehensive Income

for the six months ended 31 December 2018

	Notes	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Gross rental income	2	**12.5**	12.0	24.1
Service charge income	2	**0.5**	0.5	1.0
Total revenue	2	**13.0**	12.5	25.1
Property outgoings	3	**(0.8)**	(1.2)	(2.6)
Net property income		**12.2**	11.3	22.5
Administration expenses		**(2.3)**	(1.6)	(3.5)
Operating profit before net gains on investment and development properties		**9.9**	9.7	19.0
Profit on disposal of investment and development properties		**–**	7.7	7.6
Revaluation of investment and development properties		**8.7**	14.1	49.7
Operating profit	4	**18.6**	31.5	76.3
Total finance income	5	**–**	–	–
Finance costs		**(1.4)**	(1.6)	(3.2)
Early repayment costs		**–**	–	(3.6)
Total finance costs	5	**(1.4)**	(1.6)	(6.8)
Net finance costs	5	**(1.4)**	(1.6)	(6.8)
Profit before tax	4	**17.2**	29.9	69.5
Taxation	6	**–**	–	–
Profit for the financial period		**17.2**	29.9	69.5
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Revaluation of owner-occupied property		**–**	–	0.2
Total comprehensive income for the period		**17.2**	29.9	69.7
All operations are continuing.				
Basic earnings per share	9	**27.14p**	47.36p	109.74p
Diluted earnings per share	9	**27.04p**	47.36p	109.74p

Group Condensed Statement of Changes in Equity

for the six months ended 31 December 2018

	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
Balance at 1 July 2018	15.8	13.0	11.2	0.5	0.3	311.6	352.4
Profit for the financial period	–	–	–	–	–	17.2	17.2
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	17.2	17.2
Share-based payment	–	–	–	–	0.2	–	0.2
Dividends paid	–	–	–	–	–	(8.0)	(8.0)
Balance at 31 December 2018 (unaudited)	**15.8**	**13.0**	**11.2**	**0.5**	**0.5**	**320.8**	**361.8**
Balance at 1 July 2017	15.8	13.0	11.2	0.3	0.3	256.1	296.7
Profit for the financial period	–	–	–	–	–	29.9	29.9
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	29.9	29.9
Share-based payment	–	–	–	–	0.1	–	0.1
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(7.8)	(7.8)
Balance at 31 December 2017 (unaudited)	15.8	13.0	11.2	0.3	0.2	278.4	318.9
Balance at 1 July 2017	15.8	13.0	11.2	0.3	0.3	256.1	296.7
Profit for the financial period	–	–	–	–	–	69.5	69.5
Other comprehensive income	–	–	–	0.2	–	–	0.2
Total comprehensive income	–	–	–	0.2	–	69.5	69.7
Share-based payment	–	–	–	–	0.2	–	0.2
Expiry of share options	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(14.2)	(14.2)
Balance at 30 June 2018 (audited)	15.8	13.0	11.2	0.5	0.3	311.6	352.4

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Group Condensed Balance Sheet

at 31 December 2018

	Notes	**Unaudited 31 December 2018 £m**	Unaudited 31 December 2017 £m	Audited 30 June 2018 £m
Non-current assets				
Investment and development properties	10	**437.0**	394.7	427.4
Property, plant and equipment		**1.4**	1.3	1.5
Trade and other receivables		**0.5**	0.5	0.6
		438.9	396.5	429.5
Current assets				
Held-for-sale asset	10	**5.0**	7.0	5.0
Trading properties		**0.5**	0.5	0.5
Trade and other receivables		**1.5**	2.9	1.3
Cash and cash equivalents		**10.6**	6.3	8.8
		17.6	16.7	15.6
Total assets		**456.5**	413.2	445.1
Current liabilities				
Trade and other payables		**(14.5)**	(14.0)	(12.5)
Current tax liabilities		**(0.4)**	(0.4)	(0.4)
		(14.9)	(14.4)	(12.9)
Non-current liabilities				
Borrowings		**(79.8)**	(79.9)	(79.8)
Total liabilities		**(94.7)**	(94.3)	(92.7)
Net assets		**361.8**	318.9	352.4
Equity				
Called up ordinary share capital		**15.8**	15.8	15.8
Share premium		**13.0**	13.0	13.0
Revaluation reserve		**0.5**	0.3	0.5
Share-based payment reserve		**0.5**	0.2	0.3
Redemption reserve		**11.2**	11.2	11.2
Retained earnings		**320.8**	278.4	311.6
Total equity		**361.8**	318.9	352.4
Net asset value per share				
- Basic	9	**572p**	504p	557p
- Diluted	9	**570p**	504p	557p
- EPRA	9	**572p**	506p	559p

Group Condensed Cash Flow Statement

for the six months ended 31 December 2018

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Cash flows from operating activities			
Operating profit	**18.6**	31.5	76.3
Adjustments for non-cash items			
- Unrealised net revaluation gains on investment and development properties	**(8.7)**	(14.1)	(49.7)
- Profit on disposal of investment properties	**–**	(7.7)	(7.6)
- Depreciation	**–**	–	0.1
- Share-based payments	**0.2**	0.1	0.2
- Amortisation of lease incentives	**(0.1)**	(0.3)	(1.0)
Other movements arising from operations			
- (Increase)/decrease in receivables	**(0.4)**	(1.0)	0.3
- Increase/(decrease) in payables	**0.7**	(1.5)	(1.8)
Net cash generated from operations	**10.3**	7.0	16.8
Interest paid	**(1.2)**	(1.5)	(6.7)
Net cash inflow from operating activities	**9.1**	5.5	10.1
Cash flows from investing activities			
Acquisition of and additions to investment and development properties	**(0.7)**	(6.9)	(6.4)
Lease incentive – capital contribution	**–**	–	(1.7)
Proceeds on disposal of investment and development properties	**–**	12.8	19.7
Net cash (outflow)/inflow from investing activities	**(0.7)**	5.9	11.6
Cash flows from financing activities			
Repayment of existing borrowings	**–**	–	(20.0)
New borrowings (net of costs)	**–**	–	19.8
Decrease in borrowings	**–**	(4.5)	(4.4)
Equity dividends paid	**(6.6)**	(6.4)	(14.1)
Net cash outflow from financing activities	**(6.6)**	(10.9)	(18.7)
Net increase in cash and cash equivalents	**1.8**	0.5	3.0
Cash and cash equivalents at beginning of period	**8.8**	5.8	5.8
Cash and cash equivalents at end of period	**10.6**	6.3	8.8

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Notes to the Half-Yearly Report

1 Accounting policies

Reporting entity

A & J Mucklow Group plc (the 'Company') is a company domiciled in the United Kingdom. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as 'the Group'). The Group is primarily involved in property investment and development.

Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 30 June 2018 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been in force. There are no changes to significant accounting policies as a result of these new standards.

IFRS 9 Financial Instruments, adopted from 1 July 2018, covers the classification, measurement and derecognition of financial assets and liabilities and introduces an impairment model for financial assets. The Directors have identified trade receivables as the significant financial asset that could be impacted by IFRS 9 and have carried out an impact assessment based on actual losses incurred. An assessment of the impact of impairment losses recognised for trade receivables under IFRS 9 has been carried out at 31 December 2018 through estimating the expected credit loss based on actual credit loss experience over the last three years. Based on this assessment, there was no material impact of impairment losses recognised under IFRS 9.

IFRS 15 Revenue Recognition, adopted from 1 July 2018, governs the recognition of revenue. It is applicable to service charge and other property income (but not rental income arising from leases with tenants), trading property disposals and investment property disposals. The Directors have carried out an impact assessment and there has been no change in the amounts and timing of revenue recognised following the adoption of the standard.

The Group's condensed set of financial statements for the period ended 31 December 2018 were authorised for issue by the Board of directors on 11 February 2019. The half-yearly financial information is unaudited but has been reviewed by KPMG LLP and their report appears on page 19 of this half-yearly report.

The information for the year ended 30 June 2018 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. KPMG LLP reported on those accounts: their report was unqualified, did not draw attention to any matters by emphasis of matter and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Investment properties reclassified as held-for-sale in accordance with IFRS 5 are transferred at fair value and continue to be measured at fair value as per the requirements of IAS 40.

The condensed set of financial statements are prepared under the historical cost convention, except for the revaluation of investment and development properties and owner-occupied properties, deferred tax thereon, assets held for sale and certain financial assets.

Use of judgements and estimates

In preparing these interim financial statements, the key estimate made by management is the valuation of investment property. The key sources of estimation uncertainty are consistent with those disclosed in the most recent annual report.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

Going Concern

As at 31 December 2018 the Group had £45.0m of undrawn banking facilities, comprising the £1.0m overdraft and £44.0m of the £44.0m 2021 Revolving Credit Facility, and had fully drawn down £20.0m from its HSBC 2021 Term Loan. The Group's £1.0m overdraft is the only banking facility due for renewal within 12 months of the date of this document. The £60.0m Scottish Widows 2031 Term Loan remains fully drawn. Given these facilities, the Group's low gearing level of 19% and £115.2m of unencumbered properties, significant capacity exists to raise additional finance or to provide additional security for existing facilities, should property values fall. The directors have reviewed the current and projected financial position of the Group and compliance with its debt facilities, including a sensitivity analysis. On the basis of this review, the directors continue to adopt the going concern basis in preparing the condensed set of financial statements.

2 Revenue

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Gross rental income from investment and development properties	**12.5**	12.0	24.1
Service charge income	**0.5**	0.5	1.0
Total revenue	**13.0**	12.5	25.1

3 Property outgoings

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Service charge expenses	**0.5**	0.5	1.0
Other property expenses	**0.3**	0.7	1.6
	0.8	1.2	2.6

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Notes to the Half-Yearly Report

continued

4 Segmental analysis

The Group has two reportable segments: investment and development property, and trading property.

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Investment and development properties			
- Net property income	**12.2**	11.3	22.5
- Profit on disposal	**–**	7.7	7.6
- Gain on revaluation of investment and development properties	**8.7**	14.1	49.7
Net income from the property portfolio before administration expenses	**20.9**	33.1	79.8
Administration expenses	**(2.3)**	(1.6)	(3.5)
Operating profit	**18.6**	31.5	76.3
Net finance costs	**(1.4)**	(1.6)	(6.8)
Profit before tax	**17.2**	29.9	69.5
The property revaluation gain has been recognised as follows:			
Within operating profit			
- Investment properties	**7.4**	13.4	48.7
- Development properties	**1.3**	0.7	1.0
	8.7	14.1	49.7
Within other comprehensive income			
- Owner-occupied properties	**–**	–	0.2
Total revaluation gain for the period	**8.7**	14.1	49.9

Segmental information on assets and liabilities, including a reconciliation to the results reported in the Group condensed balance sheet, are as follows:

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Balance sheet			
Investment and development properties			
- Segment assets	**443.4**	404.4	433.9
- Segment liabilities	**(5.8)**	(5.7)	(5.5)
- Net borrowings	**(69.2)**	(73.6)	(71.0)
	368.4	325.1	357.4
Trading properties			
- Segment assets	**0.5**	0.5	0.5
- Segment liabilities	**–**	–	–
	0.5	0.5	0.5
Other activities			
- Unallocated assets	**2.0**	2.0	1.8
- Unallocated liabilities	**(9.1)**	(8.7)	(7.3)
	(7.1)	(6.7)	(5.5)
Net assets	**361.8**	318.9	352.4
Capital expenditure			
Investment and development properties	**0.9**	5.7	7.1
Other activities	**–**	–	0.1
	0.9	5.7	7.2
Depreciation			
Other activities	**–**	–	0.1
	–	–	0.1

All operations and income are derived from the United Kingdom and therefore no geographical segmental information is provided.

MUCKLOW

Notes to the Half-Yearly Report

continued

5 Net finance costs

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Finance costs on:			
Bank overdraft and loan interest payable	**1.4**	1.7	3.3
Capitalised interest	**–**	(0.1)	(0.1)
Early repayment costs	**–**	–	3.6
Total finance costs	**1.4**	1.6	6.8
Finance income on:			
Bank and other interest receivable	**–**	–	–
Total finance income	**–**	–	–
Net finance costs	**1.4**	1.6	6.8

The early repayment costs in the prior year relate to the refinancing of the Lloyds Bank £20.0m Term Loan 2023 and includes break costs and the release of unamortised costs.

6 Taxation

The Group became a Real Estate Investment Trust (REIT) on 1 July 2007. As a result of this, rental income and capital gains of the REIT business are not subject to tax.

There is no current or deferred tax charge or credit for any of the periods stated.

7 Dividends

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Amounts recognised as distributions to equity holders in the year:			
First quarterly dividend for the year ended 30 June 2018 of 5.09p (2017: 4.94p) per share	**–**	–	3.2
Second quarterly dividend for the year ended 30 June 2018 of 5.09p (2017: 4.94p) per share	**–**	–	3.2
Third quarterly dividend for the year ended 30 June 2018 of 5.30p (2017: 5.15p) per share	**3.4**	3.3	3.3
Final dividend for the year ended 30 June 2018 of 7.30p (2017: 7.09p) per share	**4.6**	4.5	4.5
	8.0	7.8	14.2

The directors propose an interim dividend of 10.48p (2017: 10.18p) per Ordinary share. This dividend has not been included as a liability in these financial statements.

The interim dividend will be paid as two quarterly dividends of 5.24p each. The first quarterly dividend will be paid on 15 April 2019 to shareholders on the register at the close of business on 15 March 2019 and the second quarterly dividend will be paid on 15 July 2019 to shareholders on the register at the close of business on 14 June 2019.

8 Underlying financial performance

Presented below is a non-statutory analysis of the underlying rental performance before tax, as shown in the investment/development column, which excludes the profit on sale of investment and trading properties and other items (capitalised interest, property revaluation movements and the fair value movement on derivative financial instruments and early repayment costs). The directors consider that this further analysis of our statement of comprehensive income gives shareholders a useful comparison of our underlying performance for the periods shown in the condensed set of financial statements.

Six months to 31 December 2018	Unaudited Total £m	**Unaudited Investment/ development £m**	Unaudited Trading properties £m	Unaudited Other items £m
Gross rental income	12.5	**12.5**	–	–
Service charge income	0.5	**0.5**	–	–
Total revenue	13.0	**13.0**	–	–
Property outgoings	(0.8)	**(0.8)**	–	–
Net property income	12.2	**12.2**	–	–
Administration expenses	(2.3)	**(2.3)**	–	–
Operating profit before net gains on investment	9.9	**9.9**	–	–
Net gains on revaluation	8.7	**–**	–	8.7
Profit on disposal of investment and development properties	–	**–**	–	–
Operating profit	18.6	**9.9**	–	8.7
Gross finance costs	(1.4)	**(1.4)**	–	–
Capitalised interest	–	**–**	–	–
Total finance costs	(1.4)	**(1.4)**	–	–
Profit before tax	17.2	**8.5**	–	8.7

Six months to 31 December 2017	Unaudited Total £m	**Unaudited Investment/ development £m**	Unaudited Trading properties £m	Unaudited Other items £m
Gross rental income	12.0	**12.0**	–	–
Service charge income	0.5	**0.5**	–	–
Total revenue	12.5	**12.5**	–	–
Property outgoings	(1.2)	**(1.2)**	–	–
Net property income	11.3	**11.3**	–	–
Administration expenses	(1.6)	**(1.6)**	–	–
Operating profit before net gains on investment	9.7	**9.7**	–	–
Net gains on revaluation	14.1	**–**	–	14.1
Profit on disposal of investment and development properties	7.7	**–**	–	7.7
Operating profit	31.5	**9.7**	–	21.8
Gross finance costs	(1.7)	**(1.7)**	–	–
Capitalised interest	0.1	**–**	–	0.1
Total finance costs	(1.6)	**(1.7)**	–	0.1
Profit before tax	29.9	**8.0**	–	21.9

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Notes to the Half-Yearly Report

continued

8 Underlying financial performance continued

Year to 30 June 2018	Audited Total £m	**Audited Investment/ development £m**	Audited Trading properties £m	Audited Other items £m
Gross rental income	24.1	**24.1**	–	–
Service charge income	1.0	**1.0**	–	–
Total revenue	25.1	**25.1**	–	–
Property outgoings	(2.6)	**(2.6)**	–	–
Net property income	22.5	**22.5**	–	–
Administration expenses	(3.5)	**(3.5)**	–	–
Operating profit before net gains on investment	19.0	**19.0**	–	–
Net gains on revaluation	49.7	**–**	–	49.7
Profit on disposal of investment and development properties	7.6	**–**	–	7.6
Operating profit	76.3	**19.0**	–	57.3
Finance costs before capitalised interest	(3.3)	**(3.3)**	–	–
Capitalised interest	0.1	**–**	–	0.1
Early repayment costs	(3.6)	**–**	–	(3.6)
Total finance costs	(6.8)	**(3.3)**	–	(3.5)
Profit before tax	69.5	**15.7**	–	53.8

9 Earnings per share and net asset value per share

Earnings per share

The basic earnings per share of 27.14p (31 December 2017: 47.36p; 30 June 2018: 109.74p) has been calculated on the basis of the weighted average of 63,294,833 (31 December 2017: 63,294,833; 30 June 2018: 63,294,833) Ordinary shares and a profit of £17.2m (31 December 2017: £29.9m; 30 June 2018: £69.5m). The diluted earnings per share is calculated on the same profit after tax and on the weighted average diluted number of shares in issue during the year of 63,521,472 (31 December 2017: 63,294,833; 30 June 2018: 63,294,833), which takes into account the number of dilutive potential ordinary shares under option.

The European Public Real Estate Association (EPRA) has issued recommended bases for the calculation of earnings and net asset value per share information and these are included in the following tables.

The EPRA earnings per share has been amended from the basic and diluted earnings per share by the following:

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Earnings	**17.2**	29.9	69.5
Profit on disposal of investment and development properties	**–**	(7.7)	(7.6)
Net gains on revaluation of investment and development properties	**(8.7)**	(14.1)	(49.7)
Early repayment costs	**–**	–	3.6
EPRA earnings	**8.5**	8.1	15.8
EPRA earnings per share	**13.45p**	12.88p	25.06p
EPRA diluted earnings per share	**13.40p**	12.88p	25.06p

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

Options over 60,149 Ordinary shares were granted in the period (31 December 2017: 108,998 Ordinary shares) under the 2015 Performance Share Plan. The departure of the managing director during the period resulted in failure to meet the service conditions over 45,241 shares, giving a total of 321,608 outstanding shares held under option (31 December 2017: 306,700). At the balance sheet date, management considered that all conditions outlined in IAS 33 would be met if the reporting date were the end of the contingency period.

Net asset value per share

The basic net asset value per share of 572p (31 December 2017: 504p; 30 June 2018: 557p) has been calculated on the basis of the number of equity shares in issue of 63,294,833 (31 December 2017: 63,294,833; 30 June 2018: 63,294,833) and net assets of £361.8m (31 December 2017: £318.9m; 30 June 2018: £352.4m). The diluted net asset value per share is calculated on the same net assets and on the weighted average diluted number of shares in issue during the year of 63,521,472 (31 December 2017: 63,294,833; 30 June 2018: 63,294,833), which takes into account the number of potential ordinary shares under option.

The EPRA net asset value per share has been calculated, using the diluted number of shares in issue stated above, as follows:

	Unaudited six months to 31 December 2018 £m	Unaudited six months to 31 December 2017 £m	Audited year to 30 June 2018 £m
Equity shareholders' funds	**361.8**	318.9	352.4
Valuation of land held as trading properties	**2.0**	2.0	2.0
Book value of land held as trading properties	**(0.5)**	(0.5)	(0.5)
EPRA net asset value	**363.3**	320.4	353.9
EPRA net asset value per share	**572p**	506p	559p

10 Properties

	Unaudited £m
Cushman & Wakefield valuation as at 31 December 2018	**443.3**
Owner-occupied property included in property, plant and equipment	**(1.3)**
Held-for-sale asset	**(5.0)**
Investment and development properties as at 31 December 2018	**437.0**

The properties are stated at their 31 December 2018 fair value and are valued by Cushman and Wakefield, professionally qualified external valuers, in accordance with the RICS Valuation Professional Standards published by the Royal Institution of Chartered Surveyors. Cushman and Wakefield have recent experience in the relevant location and category of the properties being valued. All properties are categorised as Level 3 in the IFRS 13 fair value hierarchy except for held-for-sale assets. Included within the Group condensed statement of comprehensive income is £8.7m of valuation gains which represent unrealised movements on investment and development properties. Cushman and Wakefield is the trading name of Cushman & Wakefield Debenham Tie Leung Limited.

Notes to the Half-Yearly Report

continued

10 Properties continued

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Unaudited 31 December 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Investment and development properties	**–**	**–**	**437.0**	**437.0**
Held-for-sale assets - property	**–**	**5.0**	**–**	**5.0**
Available-for-sale assets – mortgage receivables	**–**	**0.1**	**–**	**0.1**

	Unaudited 31 December 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment and development properties	–	–	394.7	394.7
Held-for-sale assets - property	–	7.0	–	7.0
Available-for-sale assets – mortgage receivables	–	0.1	–	0.1

	Audited 30 June 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investment and development properties	–	–	427.4	427.4
Held-for-sale assets - property	–	5.0	–	5.0
Available-for-sale assets – mortgage receivables	–	0.1	–	0.1

Investment properties have been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the December 2018 valuation, the yields used ranged from 5.0% to 8.3% (December 2017 – 4.4% to 8.3%; June 2018 – 4.9% to 8.3%) and the ERVs used ranged from £3.80 psf to £39.50 psf (December 2017 – £3.80 psf to £37.29 psf; June 2018 - £3.80 psf to £37.29 psf). Valuation reports are based on both information provided by the Company, e.g. current rents and lease terms which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers, e.g. ERVs and yields. These assumptions are based on market observation and the valuers professional judgement.

An increase or decrease in rental values will increase or decrease valuations, and a decrease/increase in yields will increase/ decrease the valuation. There are interrelationships between these inputs as they are determined by market conditions. The valuation movement in a period depends on the balance of those inputs. Where the inputs move in opposite directions (yields decrease and rental values increase), the valuation movement is magnified. If the inputs move in the same direction (yields increase and rental values decrease), they may offset each other.

The fair value of the mortgage receivables is determined by discounting the expected future value of repayments. Interest rate caps are externally valued based on the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates at the balance sheet date.

11 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Responsibility Statement

We confirm that to the best of our knowledge:

— the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

— the interim management report includes a fair review of the information required by:

a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board who approved the half-yearly report on 11 February 2019.

Rupert Mucklow
Chairman

David Wooldridge
Finance Director

Independent Review Report to A & J Mucklow Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2018 which comprises the Group Condensed Statement of Comprehensive Income, the Group Condensed Statement of Changes in Equity, the Group Condensed Balance Sheet, the Group Condensed Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
One Snowhill, Snow Hill Queensway
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11 February 2019

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