

# Statement of Corporate Governance

## FRC Combined Code

The Company has complied with the Code provisions set out in Section 1 of the June 2008 FRC Combined Code on Corporate Governance throughout the year ended 30 June 2009, except provisions B.1.1 and C.3.1 as disclosed below.

The Company has applied the principles set out in Section 1 of the Code, including both the main principles and supporting principles, by complying with the Code as reported above. Further explanation of how the principles and supporting principles have been applied is set out below.

The executive directors have not received a significant proportion of their salary as performance related bonuses, as suggested by code provision B.1.1. The Remuneration Committee considered this and a new Long-Term Incentive Plan for executive directors was introduced in 2007 that will, subject to performance conditions being met, enable the executive directors to earn a significant proportion of their total remuneration based on performance. Although Rupert Mucklow is an executive director, as Chairman he will not participate in the proposed plan. The Long-Term Incentive Plan was approved by Shareholders in November 2007 and the first award was granted in December 2007. Further details are included below and in the Board Report on Directors' Remuneration.

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

## The Board

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

The Board of directors is responsible to shareholders for the management and control of the Company. The Board operates within agreed matters reserved for its approval, which cover the key areas of the Group's affairs, including all aspects of strategy, material property acquisitions, disposals and financing arrangements. The roles and responsibilities of the Chairman and Managing Director are defined in writing, with the Chairman responsible for the administration of the Board, whilst the Managing Director co-ordinates the Group's business and implements strategy. The terms and conditions of the non-executive directors are available for inspection at the Company's office during normal working hours.

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

A key area of consideration for the Group is the independence of non-executive directors. The Board has considered the Code's indicators of a lack of independence for non-executive directors and, as previously stated, David Austin, Paul Ludlow and Stephen Gilmore are considered to be independent for the reasons stated below.

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

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

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

The executive directors have not received, but are potentially able to receive, a significant proportion of their salary based on performance and are further paid modestly in relation to comparable companies within the sector. Rupert Mucklow (Chairman), Justin Parker (Managing Director) and David Wooldridge (Finance Director) are eligible for an annual cash bonus of up to 60% of annual basic salary.

## Statement of Corporate Governance continued

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

The Board agreed to introduce annual performance appraisals in 2004 and the first appraisal was held in August 2005. The Board as a whole considered its performance and the performance of its subcommittees. The Chairman carried out the review of the non-executive directors, the non-executives reviewed the Chairman, and the Chairman and non-executives reviewed the remaining executive directors. The questions set out in the Higgs guidance were considered, where relevant to the Group. The conclusion of this review was that the Board and its committees continue to operate effectively.

All directors are required to submit themselves for re-election every three years.

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

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

David Austin FRICS (70), Senior Independent Non-Executive Director, was appointed to the Board in 1995. Mr Austin is a chartered surveyor and former joint senior partner of Bucknall Austin. He acts as chairman of the Audit and Remuneration Committees. The Chairman confirms that, following a full performance appraisal, David Austin continues to be effective and demonstrates commitment to his role.

All directors have access to the advice and services of the Company Secretary and there are procedures in place for a director to obtain independent professional advice, where necessary, at the Company's expense.

The attendance of the directors at scheduled Board meetings during the year ended 30 June 2009 is as follows:

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

n/a indicates not a member of that committee.

### Board Committees

The Board has three subcommittees, the Audit Committee, the Remuneration Committee and the Nomination Committee. David Austin (Senior Independent Non-Executive Director) acts as Chairman for the Audit and Remuneration Committees. Rupert J Mucklow (Group Chairman) acts as Chairman of the Nomination Committee. Written terms of reference have been agreed for each of these committees, and these are available on request from the Company Secretary or from the Company's website ([www.mucklow.com](http://www.mucklow.com)).

### Audit Committee

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

The Audit Committee meets regularly:

- To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- To monitor and review the effectiveness of the Company's internal controls;
- To make recommendations to the Board, for it to be put to shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external Auditor and to approve the remuneration and terms of engagement of the external Auditor;

- To review and monitor the external Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- To develop and implement policy on the engagement of the external Auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The whole Board reviews internal controls at Turnbull Committee meetings.

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

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

Since the start of the financial year, the Audit Committee has:

- Reviewed the preliminary announcement and the interim report. As part of these reviews the Committee received a report from the external Auditors on their audit of the annual report and accounts and review of the interim report;
- Reviewed and agreed the scope of the audit work to be undertaken by the Auditors;
- Agreed the fees to be paid to the external Auditors;
- Reviewed the need for an internal audit function; and
- Reviewed the appointment of the external Auditors as auditors and tax advisers.

### Remuneration Committee

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

The Remuneration Committee measures the performance of the executive directors and key members of senior management before recommending their annual remuneration.

The Committee consults the Chairman and Managing Director about its proposals and has access to professional advice from inside and outside the organisation.

The Report of the Board to the shareholders on Directors' Remuneration is set out on pages 26 to 29.

### Nomination Committee

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

The Committee will normally hold meetings when requested by the Chairman of the Committee.

The Committee will be responsible for:

- Reviewing changes to the Board and making recommendations to the Board, including succession planning;
- Considering the most appropriate method of recruitment for new Board members; and
- Any other work set by the Board of directors.

The Committee will have access to external professional advisers (legal or otherwise), where required to fulfil its responsibilities listed above.

### Shareholders

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

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

Shareholders have access to the preliminary press announcement which is issued through the Company website, [www.mucklow.com](http://www.mucklow.com).

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

## Statement of Corporate Governance continued

### Internal control

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

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

Key features of the system of internal control include:

- The executive directors' close involvement in all aspects of the day-to-day operations of the business, including regular meetings with senior management to review all aspects of the business;
- A comprehensive financial reporting and forecasting system;
- Defined schedule of matters reserved for the Board; and
- Twice yearly internal controls meetings of the Board, to discuss the effectiveness of internal controls and formally consider business risks. Issues are also raised at monthly Board meetings as appropriate.

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

Steps are being taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

No internal audit function is considered necessary because of the size of the Group and the systems and procedures already in place. The need for an internal audit function is reviewed annually.

### Statement on internal control

The directors are responsible for the system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the system of internal control for the financial year and the period to the date of approval of the financial statements. The key control procedures are described under the following six headings.

#### 1. Financial reporting

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

#### 2. Quality and integrity of personnel

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

#### 3. Operating unit controls

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

#### **4. Computer systems**

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

#### **5. Controls over central functions**

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

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

#### **6. Role of the executive directors**

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