Highcroft Investments PLC

Report & Financial Statements

31 December 2009

Contents

Front cover
Top left: Retail unit in Leamington Spa, let to Thorntons
Top right: Radio station and office building in Oxford, let to the BBC
Bottom left: Distribution centre in Kidlington, Oxfordshire, let to Parcelforce
Bottom right: Multi-let retail units in Staines, with offices above

Pictured above
Top left: Office building in central Bristol, let to Royal & Sun Alliance
Top centre: Distribution centre in Southampton, let to Metabo
Top right: Multi-let office building in London, SW1
Bottom left: Retail unit in Oxford, let to Jigsaw
Bottom centre: Multi-let retail units in Cirencester, with residential above
Bottom right: Retail unit in Norwich, let to Austin Reed

The report of the directors on pages 6 to 13 and the directors' remuneration report on pages 14 and 15 have each been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Highcroft Investments PLC.

The directors submit to the members their report and accounts of the group for the year ended 31 December 2009. Pages 1 to 15, including the chairman's introduction, corporate governance statement, report of the directors and directors' remuneration report, form part of the report of the directors.

Chairman's introduction

Key Highlights

- Gross property income down 8.5% to £1,943,000
- Profit for the year on revenue activities down 13.1% to £1,670,000
- Basic earnings per share on all activities was 76.2p
- Adjusted earnings per share (on revenue activities) was 32.3p
- Net asset value per share up 8.8% to 666p
- Total property income distribution 26.0p per share

Dear shareholder

To use a somewhat overworked footballing analogy, 2009 was very much a year of two halves. Shareholders will recall that at the interim stage we reported further falls in the value of our property portfolio, pressure on revenue streams and a net asset decline to 591p. I wrote in the Interim Statement that an element of stability – and perhaps even optimism – was emerging in some quarters but that we were continuing to take a cautious view.

In the event, both property and equity markets saw recovery, though optimism is still somewhat fragile. Net asset value – as a result of these recoveries and our retained earnings – was 666p per share, up 8.8% from the previous year. While we are pleased to see an upturn in asset value, your board is mindful that this is a level we first achieved in 2004 while the decline from the peak in 2006 is nearly 20%.

In terms of capital values, while we had not experienced some of the more precipitous declines seen elsewhere in the property market, we appear to have matched the recovery. Again I feel it is worth stressing that this generally says something about the quality and defensive nature of many of our assets. Notable highlights included new leases at Warrington and Kingston. Equity markets saw a strong bounce from the March lows enabling us to take the opportunity, in the second half of the year, to trim some of our holdings. In part this was to ensure that we kept well within the rules imposed by virtue of being a REIT – i.e. that non-property assets should represent no more than 25% of total assets.

Turning to the revenue position, property income was down 8.5% reflecting the voids in the commercial sector and also the sale of a residential property. Equity income was down more noticeably – a fall of 35% – which reflects the general cuts in dividends by UK companies, exacerbated by our bank holdings and the net sales we had carried out.

If the above reveals at best a fairly patchy year, shareholders are seeing the benefits of REIT status at the post tax and dividend level. The full year of REIT status has meant that we have been able to increase the property income distribution by just over 40% to a full year total of 26p per share.

Turning to prospects for the current year and beyond, the experts and commentators have mixed views as to the recovery. It is evident that certain asset classes have recovered sharply with talk of "bubbles"; on the other hand thoughts of "double dip" recession, the effect of debt-reduction measures and the overhang of distressed property portfolios makes for caution.

We look forward to meeting shareholders at our AGM on 11 May – do note the change of venue.

John Hewitt
Chairman
9 March 2010

Corporate governance

Application of principles

The company has applied the principles of good governance contained in the Combined Code 08 (Principles of Good Governance and Code of Best Practice) except as noted in the Compliance Statement below.

Compliance

The company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code 08 except that no performance related payments were made to directors, which is not in accordance with Code provision B.1.1. The remuneration committee and board believe that the directors do not need to have performance related payments in order to be motivated to give their best in serving the interests of shareholders.

Board effectiveness

The board is responsible for leading and controlling the group activities and, in particular:

- approving group objectives, strategy and policies
- business planning
- review of performance
- risk assessment
- dividends
- appointments

The board meets at least six times a year and has a schedule of matters specifically reserved for its decision. Executive directors are responsible for the implementation of strategy and policies and the day-to-day decision making and administration.

During 2009 the number of board and committee meetings and individual participation was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	6	3	1	0
J Hewitt	6/6	3/3	1/1	0
R N Stansfield	6/6	2/3	1/1	0
C J Clark	6/6	3/3	1/1	0
J C Kingerlee	6/6	Not applicable	Not applicable	Not applicable
D Bowman	6/6	3/3 (part)	Not applicable	Not applicable
D H Kingerlee	6/6	Not applicable	Not applicable	Not applicable

The board receives appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and independent professionals at the company's expense. Appropriate training is available for new directors and other directors as necessary.

The board has six directors of which three are executive directors and three are non-executive directors. The chairman is John Hewitt, the senior independent director is Richard Stansfield and the chief executive is Jonathan Kingerlee. The board members' biographies are on page 6.

The independent non-executive directors bring additional experience and knowledge and are independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. This provides a balance whereby an individual or small group cannot dominate the board's decision-making.

All directors are subject to re-election every three years and, on appointment, at the first AGM after appointment. The board has established a separate nomination committee, comprising the non-executive directors responsible for making recommendations for appointments to the board.

Formal procedures appropriate to the size of the business are in use for performance evaluation of the board and its committees. They include objective-setting and review with the use of an external facilitator.

Directors' remuneration

The directors' remuneration report is on page 14 and 15. It sets out the company's policy and the full details of all elements of the remuneration package of each individual director.

Relations with shareholders

The board values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The AGM is used to communicate with investors and documents are sent to shareholders at least 20 working days before the meeting. The chairman and chairmen of the audit and remuneration committees are available to answer relevant questions. Separate resolutions are proposed on each substantial issue so that they can be given proper consideration and there is a resolution to receive and consider the annual report and financial statements. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. We have no institutional shareholders.

Accountability and audit

The board presents a balanced and understandable assessment of the company's position and prospects in all interim and other price-sensitive public reports, reports to regulators and information required to be presented by statute. The responsibilities of the directors as regards the financial statements are described on page 5, and that of the auditor on pages 33 and 34. A statement on going concern appears on page 4.

The audit committee of the board comprises all the non-executive directors and is chaired by Christopher Clark. The committee meets not less than three times a year to review the scope and findings of the auditor's work on audit and non-audit issues, the interim and annual reports prior to their publication, the application of the company's accounting policies and any changes to the financial reporting requirements. The audit committee also plays an important part in reviewing the company's systems of internal control which are described below. The audit committee reports on each of its meetings at the next board meeting.

The audit committee reviews the terms of engagement with the external auditor and ensures that the external auditor is independent via the segregation of audit-related work from other accounting functions and has referenced fees with similar auditors.

Internal control

The board is responsible for establishing and maintaining a sound system of internal control and for reviewing its effectiveness. The system of internal control is designed to meet the particular needs of the group and the risks to which it is exposed and by its very nature provide reasonable, but not absolute, assurance against material misstatement or loss. The internal control system was in place for the period under review up to the date of approving the accounts. There is an ongoing process to identify, evaluate and manage the risks facing the business. The entire system of internal control was reviewed during the year. This review has been undertaken in accordance with guidance published by The Institute of Chartered Accountants in England and Wales.

The key procedures, which exist to provide effective internal control, are as follows:

- clear limits of authority
- annual revenue, cash flow and capital forecasts, reviewed regularly during the year, monthly monitoring of cash flow and capital expenditure reported to the board, quarterly and half year revenue comparisons with forecasts
- financial controls and procedures
- clear guidelines for capital expenditure and disposals, including defined levels of authority
- two-monthly meetings of the executive directors to authorise share purchases and sales
- an audit committee, which approves audit plans and published financial information and reviews reports from the external auditor arising from the audit and dealing with significant control matters raised
- regular board meetings to monitor continuously any areas of concern
- annual review of risks and internal controls
- annual review of compliance with Combined Code.

Corporate governance continued

The board has considered the need for an internal audit function but has decided that the size of the group does not justify it at present. However, it does review the position annually.

The directors have reviewed the operation and effectiveness of the group's system of internal control, including financial, operational and compliance controls and risk management for the financial year ended 31 December 2009 and the period up to date of approval of the financial statements.

Going concern

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and consider that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. Cash flow forecasts are prepared annually as part of the planning and budgeting process and are monitored and reworked monthly. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Given the continuing economic uncertainties, the directors are aware of the general concern affecting the assessment of the going concern basis for all businesses and have therefore taken particular care in reviewing the going concern basis this year. The group has no borrowing. The directors have not renewed either the company's overdraft facility or its loan facility following the repayment of the medium term loan. Contact is maintained with a number of banks which regard the group as an attractive lending opportunity. The company carefully monitors its forecast cash balances in order to ensure an overdraft is not required and it has relatively liquid assets, in the form of equity investments, which it can draw on if necessary.

Structure of share capital and rights and obligations attaching to shares

The company's authorised ordinary share capital as at 31 December 2009 was 8,000,000 of which 5,167,240 shares of 25p each were allotted, called up and fully paid.

Subject to the Companies Act for the time being in force (the Act) the company's articles of association confer on holders the following principal rights:

- **To receive a dividend**
  The profits of the company available for dividend and resolved to be distributed shall be applied in the payment of dividends to the members and to persons becoming entitled to shares by transmission, in accordance with their respective rights and priorities. The company in general meeting may declare dividends accordingly.

- **To a return of capital or assets if available on liquidation**
  Upon any winding up of the company, the liquidator may, with the sanction of an extraordinary resolution of the company and any other sanction required by the statutes, divide among the members in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members of different classes of members.

- **To receive notice of, attend and vote at an AGM**
  At each AGM upon a show of hands every member present in person shall have one vote, and upon a poll every member present in person or by proxy shall have one vote for every share of which he or she is the holder.

- **To have rights in respect of share certificates and share transfers**
  Every person whose name is entered as a Member in the Register shall be entitled without payment to one certificate for all the shares of each class held by him or, upon payment of such reasonable out-of-pocket expenses for every certificate after the first as the board shall from time to time determine, several certificates each for one or more of his shares.

  On any transfer of shares, the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable IFRSs and UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of my knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the board

D Bowman
Company Secretary
9 March 2010

Report of the directors

Principal activities

Highcroft Investments PLC is a group that invests in property and equity investments.

Directors

The directors are as follows:

John Hewitt:
John Hewitt, 64, worked in the City of London in stockbroking for over 20 years where he became managing director of Scrimgeour Vickers. He now splits his time between advising local and international businesses and organisations, and charitable fund-raising in the medical and academic world. He was appointed as an independent non-executive director in 1999.

Christopher Clark:
Christopher Clark, 67, was appointed as an independent non-executive director in January 2006. He is also the non-executive chairman of Brookwell Limited and was previously a board member of Advance Focus Fund Limited and of William Ransom & Son plc. He previously worked as a stockbroker and is a Fellow of the Chartered Institute of Secretaries.

Richard Stansfield:
Richard Stansfield, 52, is a chartered surveyor and formerly a director of Savills commercial department based in Oxford where he advised a number of institutional clients on their commercial property portfolios throughout the UK. He is now Land Agent for Jesus College Oxford and responsible for a fund of commercial, residential and rural properties located in England and Wales. He was appointed as an independent non-executive director in 2002.

Jonathan Kingerlee:
Jonathan Kingerlee, 49, became an executive director in 1995 and chief executive in 2001. He is chief executive of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests. Other interests include companies developing and selling environmental building materials, and he is also a founder member of the Good Homes Alliance which is a trade association open to property developers committed to improving the performance of newly constructed homes.

David Bowman:
David Bowman, 54, became finance director in 2001, having been company secretary since 1993. He is also a consultant for Practical Financial Management and a non-executive director of Traidcraft PLC and of Traidcraft Exchange Limited.

David Kingerlee:
David Kingerlee, 48, became an executive director in 1996. He is also an executive director and company secretary of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests.

John Hewitt and Jonathan Kingerlee retire by rotation and, being eligible, offer themselves for re-election.

John Hewitt is continuing in office having served more than ten years on the board. Before recommending John for re-election the other directors have conducted a rigorous appraisal of performance, led by Richard Stansfield as senior independent director.

David Bowman has given notification that he will retire from the board when his current contract with the company expires on 30 June 2010. We have begun the process to identify a successor and will make an announcement when a decision has been made.

Interests of the directors in the shares of the company

The beneficial and other interests of the directors, and their families, in the shares of the company at 1 January 2009 and at 31 December 2009 were as follows:

	31 December 2009		1 January 2009	
		Non-		Non-
	Beneficial	**beneficial**	Beneficial	beneficial
J Hewitt	**10,000**	**–**	10,000	–
C J Clark	**4,950**	**–**	4,950	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**118,023**	**–**	118,023	–
D Bowman	**17,325**	**86,354**	17,325	86,354
D H Kingerlee	**114,397**	**77,780**	114,397	77,780

There is no duplication of directors' shareholdings, except in respect of:

- 77,780 of the non-beneficial holdings of David Bowman and David Kingerlee
- 1,715 of the beneficial and non-beneficial holdings of David Bowman
- 25,927 of the beneficial and non-beneficial holdings of David Kingerlee
- 25,927 of the beneficial holding of Jonathan Kingerlee and 25,297 of the non-beneficial holdings of David Bowman and David Kingerlee.

There were no changes in the interests of the directors in the period from 1 January 2010 to 9 March 2010.

Substantial shareholders

As at 9 March 2010 the following notifications of interests in 3% or more of the company's ordinary share capital in issue at the date of this report had been received:

		Number of shares	
			Non-
		Beneficial	beneficial
D G & M B Conn and associates	(19.30%)	997,509	–
The wholly owned subsidiaries of Kingerlee Holdings Limited, total 25.36% :			–
Kingerlee Limited	(9.96%)	515,000	–
Kingerlee Homes Limited	(7.70%)	397,673	–
T H Kingerlee & Sons Limited	(7.70%)	397,674	–

Strategy

The broad objectives of the group are unchanged. These are to enhance shareholder value via a combination of increasing asset value, increasing profits and increasing dividends. The strategy by which the board of Highcroft seeks to achieve these objectives and our comments in respect of 2009, including relevant key performance indicators follows. The directors are well aware that the current economic circumstances are ones which increase the risks for all organisations but continue to believe that the strategy remains appropriate.

- To continue the focus on the commercial property portfolio.

	2009	2008	2007	2006	2005
Allocation of total investments	**%**	%	%	%	%
Commercial property	**72**	72	71	73	70
Residential property	**7**	6	6	5	6
Equity investments	**21**	22	23	22	24
Total	**100**	100	100	100	100

Report of the directors continued

In January 2009 we bought the small property between our two properties in Oxford High Street. This purchase was made in the expectation that it will allow us to create some marriage value and detailed investigations have started on plans to achieve this.

The flow of potential purchases in 2009 was lighter than we would have liked. Of those that we looked at prices were keener than we thought would give value for shareholders. However, in 2010 opportunities have increased.

- To continue to reduce the residential property portfolio when opportunities arise.

Number of residential disposals	**2009**	2008	2007	2006	2005
Per annum	**0**	1	1	2	2

We plan for two residential disposals per year, but as we sell only with vacant possession the annual rate is not within our control. Since the year end one property has already been sold and we expect a second to become available for sale during 2010.

- To have such a proportion of funds in equity investments which maintains a lower risk profile than would attach to a portfolio which was 100% invested in property.

We intend that equity investments will represent 15-25% of total investments and the upper limit is a condition of our REIT status.

We generated £1,330,000, net, from the equity portfolio and used this to repay our medium term debt. The condition of the equity and property markets in 2010 are such that we are not averse to making a further transfer of funds out of the equity investment portfolio and into the property portfolio, consistent with maintaining a lower risk profile.

- To seek property development opportunities from within our own property portfolio.

The purchase of a third property in Oxford High Street, referred to above, presents a new opportunity to create value from within our own portfolio. The expected sale of the right to add residential units to the commercial property in Staines has still not come to fruition, though we are continuing to explore the possibilities.

- To seek, though not exclusively, new property acquisitions with development opportunities where the development risks can be counter-balanced by income from the same investment.

This continues to be one of the potential attractions which we seek from new acquisitions, although no sufficiently appealing opportunities presented themselves in 2009.

- To use medium term gearing but to a level which would be perceived as cautious by comparison with other real estate businesses.

Medium term loans were repaid in 2009. We maintained contact with a number of banks, to which we are an attractive lending proposition and we will use those contacts to expand the property portfolio in the future.

Business review

Results and dividends

The trading results for the year and the group's financial position at the end of the year are shown in the financial statements and are discussed further in the business review below.

The board is proposing a final property income distribution on the ordinary shares in respect of 2009 of 16.0p (2008 11.4p dividend) per share. The total property income distributions for the year will be 26.0p per share as compared with total dividends in respect of 2008 of 18.4p.

The dividends paid to shareholders during 2009 were as follows:

	2009 £'000	2008 £'000
2008 Final: 11.4p per ordinary share (2007 9.25p)	**589**	478
2009 Interim: 10.0p per ordinary share (2008 7.0p)	**518**	362
	1,107	840

Although we have an ambition continuously to increase distributions to shareholders, adherence to the REIT obligations may cause a less even pattern than has historically been the case.

Financial performance – revenue activities

Gross income for the year ended 31 December 2009 was £2,235,000 (2008 £2,574,000).

Analysis of gross income	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Commercial property income	**1,877**	2,050	2,062	1,933	1,833
Residential property income	**66**	74	64	105	84
Gross income from property	**1,943**	2,124	2,126	2,038	1,917
Income from equity investments	**292**	450	406	489	339
Total income	**2,235**	2,574	2,532	2,527	2,256

Underlying commercial property income has fallen because the main Warrington property was a void for the whole of 2009 and because 2008 benefited, to a greater extent than 2009, from rent reviews. Commercial property income in 2008 was also boosted by two dilapidations claims totalling £92,000.

Residential property income reduced in 2009 relative to 2008 because of the sale of one property in 2008 and because of a second property which became empty in the third quarter of 2009.

Property operating expenses remained high in 2009 because of the cost of bad debts, rates and insurance on vacant properties. However, there was a lower level of dilapidations expenditure and rent review and other fees.

2009's income from equity investments fell because of a general reduction in the level of dividends from a smaller portfolio, but also because of the absence of special dividends and the reduced dividends from the banking sector.

Analysis of administrative and net finance expenses	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Directors' remuneration	**139**	166	133	141	112
Auditor's remuneration including other services	**22**	34	31	32	36
Fees in respect of conversion to a REIT	**–**	47	147	–	–
Other expenses	**122**	77	80	74	74
Administrative expenses	**283**	324	391	247	222
Net finance expenses	**18**	61	209	188	84
Total expenses	**301**	385	600	435	306

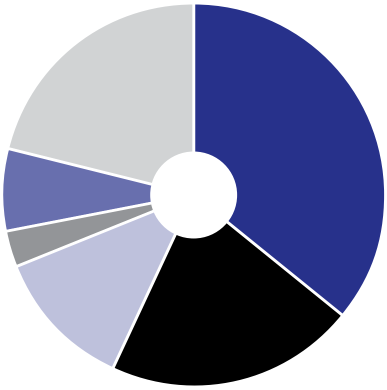
The ongoing running costs of the business remain well controlled. Three factors are relevant to an understanding of how 2009 compares to 2008:

- 2008's expenses were reduced by a VAT reclaim for the three preceding years, giving a benefit of £38,000
- The additional time and effort in both 2007 and 2008 required to achieve REIT conversion was reflected in the directors' salaries for 2008
- Lower interest rates and the repayment of medium term debt reduced net finance expenses.

Report of the directors continued

Financial performance – capital activities

Overview of investment portfolios



Retail Property	**36%**
Office Property	**21%**
Warehouse	**12%**
Leisure	**3%**
Residential	**7%**
Equities	**21%**

Property investments at 31 December 2009 **Commercial:**	Valuation £'000
Multi-let office building in London, SW1	2,950
Radio station and office building in Oxford, let to the BBC	2,440
Distribution centre in Kidlington, Oxfordshire, let to Parcelforce	2,400
Multi-let retail units in Staines, with offices above	2,000
Office building in central Bristol, let to Royal & Sun Alliance	1,975
Distribution centre in Southampton, let to Metabo	1,825
Retail unit in Oxford, let to Jigsaw	1,675
Retail unit in Leamington Spa, let to Thorntons	1,425
Multi-let retail units in Cirencester, with residential above	1,390
Retail unit in Norwich, let to Austin Reed	1,375
Bank premises in Petersfield, let to Barclays	1,070
Retail unit in Oxford, let to Britannia Building Society	1,015
Licensed leisure and retail property in Warrington, let to Wetherspoons	1,000
Retail unit in Beckenham, let to Superdrug	900
Retail unit in Yeovil	825
Retail unit in Kingston, let to Kaleido	600
Bank premises in Reigate, let to Lloyds Banking Group	575
	25,440
Nine residential properties	2,385
	27,825

Analysis of gains and losses on property	**2009 £'000**	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Realised gains on investment property	**–**	–	107	320	44
Realised losses on investment property	**–**	(5)	(6)	(33)	(36)
	–	(5)	101	287	8
Revaluation gains on investment property	**1,616**	59	388	2,732	3,464
Revaluation losses on investment property	**(416)**	(8,985)	(3,819)	(398)	(65)
	1,200	(8,926)	(3,431)	2,334	3,399

Analysis of gains and losses on equities – capital activities	**2009 £'000**	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Realised gains on equity investments	**263**	5	272	73	77
Realised losses on equity investments	**(141)**	(446)	(245)	(159)	(45)
	122	(441)	27	(86)	32
Revaluation gains on equity investments	**1,416**	90	1,320	1,382	1,671
Revaluation losses on equity investments	**(93)**	(3,089)	(1,045)	(150)	(97)
	1,323	(2,999)	275	1,232	1,574

Summary of investment activities	**2009 £'000**	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Purchase of property	**281**	–	6	7,437	–
Purchase of equity investments	**515**	750	1,164	1,029	958
	796	750	1,170	8,466	958

Summary of other key performance indicators

The directors have monitored the progress of the group strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators.

Growth in gross income	**2009**	2008	2007	2006	2005
Commercial property income	**(8%)**	(1%)	7%	5%	16%
Residential property income	**(10%)**	16%	(39%)	25%	4%
Total property income	**(9%)**	(0%)	6%	6%	15%
Income from equity investments	**(35%)**	11%	(17%)	44%	19%
Total income	**(13%)**	2%	0%	12%	16%

Cost of voids and bad debts	**2009 £'000**	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Voids	**108**	136	14	10	–
Bad debts	**26**	42	–	–	–

The retail property in Yeovil was vacant throughout 2009, apart from a short-term let before Christmas, and the lease on the leisure property in Warrington void up until a lease was granted in mid-November.

Report of the directors continued

Future developments for the business/future outlook

The economy in this election year now seems to be heading for a new period of uncertainty and turbulence which may well affect the property market and stock market valuations. We have, therefore, used the recent stock market strength to realise funds thus emphasising the portfolio's defensive stance.

The latest wave of economic uncertainty may bring to the market the kind of assets, in size and quality, which are the mark of our property operation.

Principal risks and uncertainties

Operational and financial risks facing the business are monitored through a process of regular assessment by the executive directors and by reporting and discussion at meetings of the Audit Committee and the board.

The directors are of the opinion that a thorough risk management process is adopted which includes the formal review of all the six risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

1. Adverse economic environment

   The economic uncertainties which remain globally and in the UK are a current concern for all businesses. We expect this to continue to impact on consumer spending and on the financial health of businesses in which we are investors and businesses who are our tenants.

   The independent valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

2. Balance of income and assets

   Highcroft's status as a REIT is conditional upon a number of factors, the most critical of which is maintaining a correct balance of income and assets such that the property side is always greater than 75%. Failure to maintain these balances can lead to exclusion from the REIT regime. The directors are aware of this risk and it is a key principle underlying our investment decision-making.

3. Business strategy

   The success of Highcroft is dependent upon establishing the right business strategy to fulfil shareholder expectations. We are explicit about our strategy and assess our performance against that strategy in our annual report. In response to this risk, directors use planning and forecasting of the business to help to ensure that outcomes are satisfactory for shareholders. As noted above, we continue to believe that our strategy is the right one.

4. Insolvency of a tenant

   Rent collections are continuously reviewed by our property managers and regularly reviewed internally. Tenants' financial status is carefully reviewed when a new lease is entered into and when a property is acquired. The present economic environment has increased the risk of tenant insolvency which leads to bad debts and voids.

   The group has 24 commercial tenants, so that the risks associated with the default of individual tenants are quite well spread. Our five largest tenants by current passing rent provide 46% of current income. The average credit score of these five tenants is presently 79. The weighted average credit score of the whole portfolio is currently 75.

5. Potential for unsatisfactory relationship with property advisers and managers
The performance of the property portfolio is key to our overall success and the professional advice we receive is critical. We work closely with our advisers to review regularly the performance of the portfolio and also that of the advisers themselves. As with all our advisers, the work is occasionally put out to tender.

6. Internal controls become ineffective, irrelevant or incomplete
Potential issues affecting internal control are a continuous part of our thinking. Risks and their control are reviewed annually by the audit committee and by the whole board.

Corporate environmental and social responsibility policies
In the conduct of the group's business, the directors aim to act with honesty, integrity and openness and to conduct operations to the highest standards. We seek to minimise the risk of our activities having any adverse effect on the environment.

Policy on the payment of suppliers
The group normally agrees payment terms with suppliers as part of the establishment of a contract. It is the group's normal practice to pay its suppliers before the end of the month following the month of supply. This policy applies at the present time and applied in 2009 when average creditor days were 30 (2008 29).

Donations
Donations to charitable organisations amounted to £4,800 (2008 £4,500). There were no political donations.

Summary of profit before tax and income tax expense on revenue activities	**2009 £'000**	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Profit before tax	**1,681**	1,889	1,833	1,956	1,825
Income tax (expense)/credit	**(11)**	33	(271)	(456)	(459)
Distributable profit	**1,670**	1,922	1,562	1,500	1,366

Financial instruments
Information on financial instruments is included in notes 18 and 19.

Auditor
Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the annual general meeting to be held on 11 May 2010.

By Order of the board

D Bowman
Company Secretary
9 March 2010

Directors' remuneration report

The information contained in this report is not subject to audit except where specified.

Composition of the remuneration committee

The members of the committee are Richard Stansfield (chairman), Christopher Clark and John Hewitt. None of the committee has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

Terms of reference

The approved terms of reference of the remuneration committee are as follows:

The remuneration committee is established in order to determine the company's policy on executive directors' remuneration and the specific remuneration packages for each of the executive directors, including any pension rights and any compensation payments.

The remuneration committee consults the chief executive about their proposals relating to the remuneration of other executive directors, but he is not present for the discussion of his own remuneration. The committee has access to advice from independent professionals at the company's expense.

Policy

Executive directors' remuneration is reviewed annually having regard to the work done and the profits of the business but without a fixed relationship between profits and any element of pay. Executive directors are given service contracts not longer than three years, within which there is a notice period by either party of six months, and with no provision for compensation payments on termination. The contracts of directors in office have expiry dates as follows, subject to shareholders re-election at annual general meetings when appropriate:

	Start date	Expiry date
J Hewitt	1 July 2007	30 June 2010
C J Clark	1 January 2009	30 June 2012
R N Stansfield	1 January 2008	30 June 2011
J C Kingerlee	1 July 2008	30 June 2011
D Bowman	1 July 2007	30 June 2010
D H Kingerlee	1 July 2009	30 June 2012

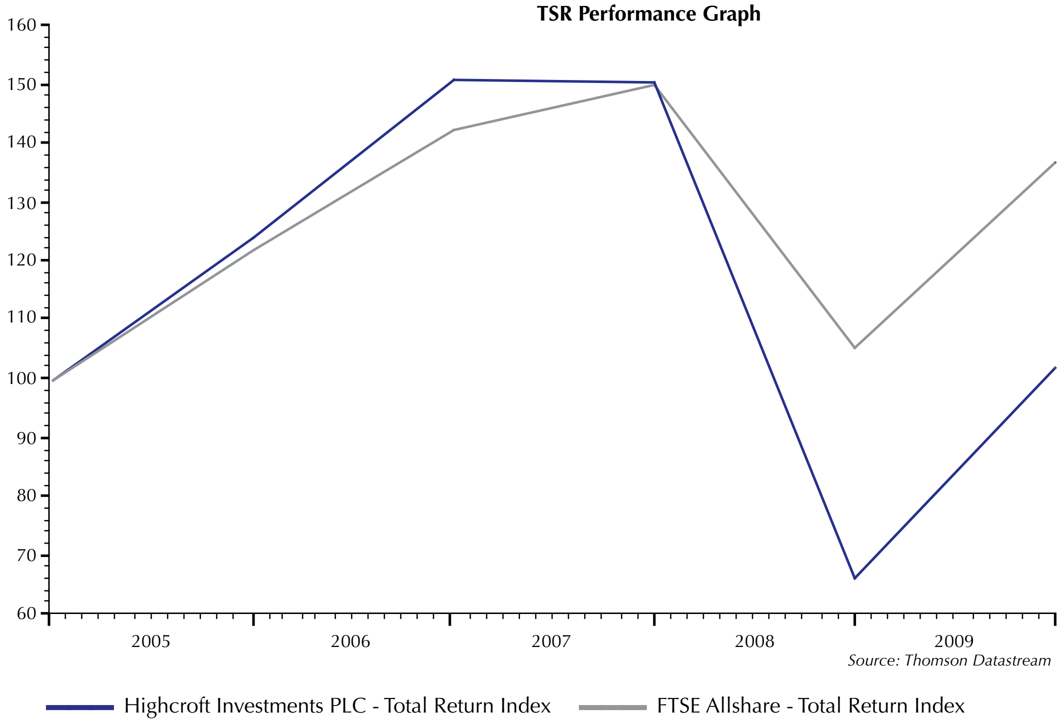
The remuneration of the non-executive directors is determined by the whole board.

Directors' interests

Directors' interests are shown in the report of the directors on page 7. They are taken from the company's register of directors' interests which is open to inspection, by appointment, at the registered office.

Performance graph

The graph below shows Highcroft's Total Shareholder Return (TSR) compared to the All Share index over the last five years. TSR over the last five years is defined as share price growth plus reinvested dividends. The All Share index provides a basis for comparison as a relevant equity index of which Highcroft is a constituent member.



Directors' remuneration (audited)

	2009	2008
	£	£
John Hewitt	**16,000**	18,000
Christopher Clark	**10,700**	12,200
Richard Stansfield	**10,700**	12,200
Jonathan Kingerlee	**34,300**	37,300
David Bowman	**35,200**	43,800
David Kingerlee	**20,500**	27,500
	127,400	151,000

There were no benefits in kind and no performance related payments were made. The group does not have a pension scheme for directors nor an executive share option scheme or other long term incentive plan for directors.

R N Stansfield
Chairman of the Remuneration Committee
9 March 2010

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	Note	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Gross rental revenue		1,943	–	1,943	2,124	–	2,124
Property operating expenses	8	(253)	–	(253)	(300)	–	(300)
Net rental revenue		1,690	–	1,690	1,824	–	1,824
Realised gains on investment property		–	–	–	–	–	–
Realised losses on investment property		–	–	–	–	(5)	(5)
Net losses on investment property		–	–	–	–	(5)	(5)
Valuation gains on investment property		–	1,616	1,616	–	59	59
Valuation losses on investment property		–	(416)	(416)	–	(8,985)	(8,985)
Net valuation gains/(losses) on investment property	8	–	1,200	1,200	–	(8,926)	(8,926)
Dividend revenue		292	–	292	450	–	450
Gains on equity investments	9	–	1,679	1,679	–	95	95
Losses on equity investments	9	–	(234)	(234)	–	(3,535)	(3,535)
Net investment income/(expense)		292	1,445	1,737	450	(3,440)	(2,990)
Administration expenses	3	(283)	–	(283)	(324)	–	(324)
Net operating profit/(loss) before net finance expenses		1,699	2,645	4,344	1,950	(12,371)	(10,421)
Finance income		2	–	2	27	–	27
Finance expenses		(20)	–	(20)	(88)	–	(88)
Net finance expenses		(18)	–	(18)	(61)	–	(61)
Profit/(loss) before tax		1,681	2,645	4,326	1,889	(12,371)	(10,482)
Income tax (expense)/credit	5	(11)	(377)	(388)	33	1,180	1,213
Total profit/(loss) and comprehensive income for the year		1,670	2,268	3,938	1,922	(11,191)	(9,269)
Basic and diluted earnings/(loss) per share	7	32.3p	43.9p	76.2p	37.3p	(216.6p)	(179.3p)

The total column represents the income statement as defined in IAS 1.

The accompanying notes form an integral part of these financial statements.

Consolidated statement of financial position

at 31 December 2009

	Note	2009 £'000	2008 £'000	2007 £'000
Assets				
Non-current assets				
Investment property	8	**27,825**	26,344	35,545
Equity investments	9	**7,397**	7,282	10,830
Total non-current assets		**35,222**	33,626	46,375
Current assets				
Trade and other receivables	10	**103**	223	326
Cash and cash equivalents		**946**	963	813
Total current assets		**1,049**	1,186	1,139
Total assets		**36,271**	34,812	47,514
Liabilities				
Current liabilities				
Interest-bearing loan		**–**	14	18
Current income tax		**90**	440	426
Trade and other payables	11	**777**	826	743
Total current liabilities		**867**	1,280	1,187
Non-current liabilities				
Interest-bearing loan	12	**–**	1,240	1,909
Deferred tax liabilities	13	**969**	688	2,705
Total non-current liabilities		**969**	1,928	4,614
Total liabilities		**1,836**	3,208	5,801
Net assets		**34,435**	31,604	41,713
Equity				
Issued share capital	14	**1,292**	1,292	1,292
Revaluation reserve – property		**5,696**	4,080	7,094
– other		**2,656**	2,137	4,203
Capital redemption reserve		**95**	95	95
Realised capital reserve		**18,229**	17,773	17,527
Retained earnings		**6,467**	6,227	11,502
Total equity		**34,435**	31,604	41,713

These financial statements were approved by the board of directors on 9 March 2010.

J Hewitt

J C Kingerlee
Directors
Company number – 224271

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

2009	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2009	**1,292**	**4,080**	**2,137**	**95**	**17,773**	**6,227**	**31,604**
Dividends	**–**	**–**	**–**	**–**	**–**	**(1,107)**	**(1,107)**
Transactions with owners	**–**	**–**	**–**	**–**	**–**	**(1,107)**	**(1,107)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**3,938**	**3,938**
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation (losses)/gains	**–**	**1,200**	**1,230**	**–**	**–**	**(2,430)**	**–**
Tax on revaluation gains/(losses)	**–**	**–**	**(343)**	**–**	**–**	**343**	**–**
Realised gains	**–**	**–**	**–**	**–**	**88**	**(88)**	**–**
Surplus attributable to assets sold in the year	**–**	**–**	**(368)**	**–**	**368**	**–**	**–**
Excess of cost over revalued amount taken to retained earnings	**–**	**416**	**–**	**–**	**–**	**(416)**	**–**
Total comprehensive income for the year	**–**	**1,616**	**519**	**–**	**456**	**1,347**	**3,938**
At 31 December 2009	**1,292**	**5,696**	**2,656**	**95**	**18,229**	**6,467**	**34,435**

2008	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	1,292	7,094	4,203	95	17,527	11,502	41,713
Dividends	–	–	–	–	–	(840)	(840)
Transactions with owners	–	–	–	–	–	(840)	(840)
Loss for the year	–	–	–	–	–	(9,269)	(9,269)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation (losses)/gains	–	(8,926)	(2,539)	–	–	11,465	–
Tax on revaluation (losses)/gains	–	955	893	–	–	(1,848)	–
Realised gains	–	–	–	–	(446)	446	–
Surplus attributable to assets sold in the year	–	(272)	(420)	–	692	–	–
Excess of cost over revalued amount taken to retained earnings	–	5,229	–	–	–	(5,229)	–
Total comprehensive income for the year	–	(3,014)	(2,066)	–	246	(4,435)	(9,269)
At 31 December 2008	1,292	4,080	2,137	95	17,773	6,227	31,604

Revaluation reserves include annual revaluation gains and losses, less attributable deferred taxation. The realised capital reserve includes realised revaluation gains and losses, less attributable income tax. In accordance with the Articles of Association the revaluation and realised capital reserves are not distributable.

Consolidated statement of cash flows

for the year ended 31 December 2009

		2009 £'000	2008 £'000
Operating activities			
Profit/(loss) for the year		**3,938**	(9,269)
Adjustments for:			
Net valuation (gains)/losses on investment property		**(1,200)**	8,926
Loss on disposal of investment property		**–**	5
(Gain)/loss on investments		**(1,445)**	3,440
Finance income		**(2)**	(27)
Finance expense		**20**	88
Income tax expense/(credit)		**388**	(1,213)
Operating cash flow before changes in working capital and provisions		**1,699**	1,950
Decrease in trade and other receivables		**120**	103
(Decrease)/increase in trade and other payables		**(49)**	83
Cash generated from operations		**1,770**	2,136
Finance income		**2**	27
Finance expenses		**(20)**	(88)
Income taxes paid		**(457)**	(794)
Net cash flows from operating activities		**1,295**	1,281
Investing activities			
Purchase of non-current assets	– investment property	**(281)**	–
	– equity investments	**(515)**	(750)
Sale of non-current assets	– investment property	**–**	271
	– equity investments	**1,845**	857
Net cash flows from investing activities		**1,049**	378
Financing activities			
Loan repayments		**(1,254)**	(669)
Dividends paid		**(1,107)**	(840)
Net cash flows from financing activities		**(2,361)**	(1,509)
Net (decrease)/increase in cash and cash equivalents		**(17)**	150
Cash and cash equivalents at 1 January 2009		**963**	813
Cash and cash equivalents at 31 December 2009		**946**	963

Notes to the financial statements

for the year ended 31 December 2009

1 Significant accounting policies

Highcroft Investments PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 31 December 2009 comprise the company and its subsidiary, together referred to as the group. The accounting policies remain unchanged, except in respect of IAS 1, IFRS 8 and the amendment to IFRS 7.

Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and the measurement of equity investments at fair value. The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the group, but gives rise to additional disclosures. The measurement and recognition of the group's assets, liabilities, income and expenses is unchanged. IAS 1 (Revised 2007) affects the presentation of changes in equity and introduces a statement of changes in equity, which was previously presented as a note to the financial statements. Under IFRS 8 the accounting policy for identifying segments is required to be based on the internal management reporting information that is regularly reviewed by the directors. As this basis has always been used by Highcroft, there is no change.

Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the income statement and balance sheet. Such decisions are made at the time the financial statements are prepared and adopted based on historical experience and other factors that are believed to be reasonable at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent. The measurement of fair value and carrying investments at fair value through profit and loss constitutes the principal areas of judgement exercised by the directors in the preparation of these financial statements. The fair valuations of investment properties and equity investments at fair value are carried out by external advisors who the directors consider to be suitably qualified to carry out such valuations.

New accounting standards and interpretations

The group's approach to new accounting standards and interpretations issued during the year is set out below.

Standards amendments and interpretations effective in the year ended 31 December 2009 and adopted for the first time

- IAS 1 (revised) Presentation of financial statements – comprehensive revision including a statement of comprehensive income, disclosure of a third year statement of financial position and statement of changes in equity. This revised standard impacts the presentational disclosure of the financial statements, but has no impact on the carrying values of items.
- IFRS 8 Operating segments. This new standard does not change the format of the group's financial reporting, as the format which we have previously used already complies with the revised standard.
- Amendment to IFRS 7 Financial instruments: Disclosures. This standard requires enhanced disclosures concerning fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of fair value hierarchy.

Amendments to and interpretations of existing standards that are relevant to the group but are not yet effective and have not been adopted early

The following amendments to and interpretations of existing standards have been published and are mandatory for the group's future accounting periods beginning on or after 1 January 2010 and which the group has not adopted early:

• IAS 27 (revised) Consolidated and separate financial statements – consequential amendment arising from amendments to IFRS 3.

1 **Significant accounting policies** (continued)

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiary, Rodenhurst Estates Limited, which are both made up to 31 December 2009, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue

Rental revenue from investment property is recognised in the income statement on a straight line basis over the term of the lease.

Dividend revenue

Dividend revenue relating to exchange-traded equity investments is recognised in the income statement on the ex-dividend date. In some cases, the group may receive dividends in the form of shares rather than cash. In such cases, the group recognises the dividend income for the amount of cash dividend alternative with a corresponding increase in cost of investments.

Interest income

Interest income and expense is recognised in the income statement under the effective interest method as they accrue. Interest income is recognised on a gross basis, including withholding tax, if any.

Expenses

All expenses are recognised in the income statement on an accrual basis.

Realised gains and losses

Realised gains and losses are calculated as the difference between the proceeds, less expenses, and the value of the asset at the beginning of the financial year. The related revaluation gains or losses of previous years are transferred from revaluation reserve to realised capital reserve.

Income tax

Income tax on the profit and loss for the periods presented comprises current and deferred tax, except where they relate to items charged directly to equity in which case the related deferred tax is also charged or credited to equity. Income tax is recognised in the income statement. As a REIT, tax is not payable on the income and gains generated in the tax exempt property business.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of equity investments, using tax rates enacted or substantially enacted at the balance sheet date.

Investment property

Investment property is that which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Notes to the financial statements (continued)

1 **Significant accounting policies** (continued)

In accordance with IAS 40, a property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Acquisitions and disposals are recognised on the date of completion. Any gain or loss arising from a change in fair value is recognised in the income statement.

Equity investments

The directors have adopted the fair value through profit and loss option for its qualifying financial assets on the basis that to do so is in accordance with its documented investment strategy. The equity investments are quoted and so are valued at market price.

Trade and other receivables

Trade and other receivables are recognised at fair value on initial recognition and subsequently at amortised cost. An impairment loss is recognised for the amount by which the receivable's carrying amount is believed to exceed its recoverable amount. To estimate the recoverable amount, management considers the payment history of the tenant and takes into account the most recent credit rating of the tenant.

Cash and cash equivalents

Cash comprises cash available at less than three months' notice.

Trade and other payables

Trade and other payables are recognised at fair value on initial recognition and subsequently at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable costs. Thereafter the carrying amount is stated at amortised cost obtained using the effective interest rate method.

Issued share capital

Ordinary shares are classified as equity because they do not contain an obligation to transfer cash or another financial asset. Dividends are recognised as a liability in the period in which they are payable.

Segment reporting

The format used for segmental reporting is by operating segment, as the group operates in only one geographical segment. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. A segment is a distinguishable component of the group that is engaged in generating income and expenses and which is subject to risks and rewards that are distinct from those of other segments.

2 Segment reporting

The operating segment reporting format identifies the operating segments, the performance of which is monitored by the group's management using a consistent internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group is comprised of the following main operating segments:

- commercial property comprising retail outlets, offices and warehouses
- residential property comprising mainly single-let houses
- financial assets comprising exchange-traded equity investments

	2009	2008
	£'000	£'000
Commercial property		
Gross income	**1,877**	2,050
Profit/(loss) for the year	**2,236**	(7,494)
Assets	**26,485**	25,478
Liabilities	**656**	2,322
Residential property		
Gross income	**66**	74
Profit for the year	**375**	373
Assets	**2,386**	2,048
Liabilities	**3**	66
Financial assets		
Gross income	**292**	450
Profit/(loss) for the year	**1,327**	(2,148)
Assets	**7,400**	7,286
Liabilities	**1,177**	820
Total		
Gross income	**2,235**	2,574
Profit/(loss) for the year	**3,938**	(9,269)
Assets	**36,271**	34,812
Liabilities	**1,836**	3,208

22% of gross commercial property income arises from two tenants each representing more than 10% of income.

3 Administrative expenses

	2009	2008
	£'000	£'000
Directors (note 4)	**139**	166
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**19**	9
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**–**	10
Tax services	**–**	13
Other services pursuant to legislation	**3**	2
Fees in respect of conversion to a REIT	**–**	47
Other expenses	**122**	77
	283	324

In 2009 the auditor's fees for the company's subsidiary have been included with the auditor's fee for the company.

4 Directors

	2009 £'000	2008 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**127**	151
Social security costs	**12**	15
	139	166

The average number of employees, all of whom were directors, of the group during the year was 6 (2008 6). The three executive directors are the key managers of the company. More detailed information concerning directors' remuneration is shown in the directors' remuneration report.

5 Income tax expense

	2009 £'000	2008 £'000
Current tax:		
On revenue profits	**–**	102
On capital profits	**34**	–
REIT conversion charge	**–**	668
Prior year underprovision	**11**	34
	45	804
Deferred tax (note 13)	**343**	(2,017)
	388	(1,213)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained as follows:

	2009 £'000	2008 £'000
Profit/(loss) before tax	**4,326**	(10,482)
Profit/(loss) before tax multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%).	**1,211**	(2,987)
Effect of:		
Tax exempt revenues	**(66)**	(96)
Profit not taxable as a result of REIT conversion	**(809)**	(339)
REIT conversion charge	**–**	668
Chargeable gains/losses (more)/less than accounting profit	**41**	1,507
Adjustments to tax charge in respect of prior periods	**11**	34
Income tax expense/(credit)	**388**	(1,213)

6 Dividends

In 2009, the following dividends have been paid by the company.

	2009 £'000	2008 £'000
2008 Final: 11.4p per ordinary share (2007 9.25p)	**589**	478
2009 Interim: 10.0p per ordinary share (2008 7.0p)	**518**	362
	1,107	840

On 9 March 2010, the directors declared a property income distribution of 16p per share (2008 11.4p) payable on 2 June 2010 to shareholders registered at 7 May 2010.

7 Earnings/(loss) per share

The calculation of earnings per share is based on the total profit for the year of £3,938,000 (2008 £9,269,000 loss) and on 5,167,240 shares (2008 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2009 and throughout the period since 1 January 2009. There are no dilutive instruments.

In order to draw attention to the impact of valuation gains and losses which are included in the income statement but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £1,670,000 (2008 £1,922,000) has been calculated.

	2009	2008
	£'000	£'000
Earnings:		
Basic profit/(loss) for the year	**3,938**	(9,269)
Adjustments for:		
Net valuation (gains)/losses on investment property	**(1,200)**	8,931
(Gains)/losses on investments	**(1,445)**	3,440
Income tax on gains and losses	**377**	(1,180)
Adjusted earnings	**1,670**	1,922
Per share amount:		
Profit/(loss) per share	**76.2p**	(179.3p)
Adjustments for:		
Net valuation (gains)/losses on investment property	**(23.2p)**	172.8p
(Gains)/losses on investments	**(28.0p)**	66.6p
Income tax on gains and losses	**7.3p**	(22.8p)
Adjusted earnings per share	**32.3p**	37.3p

8 Investment property

	2009	2008	2007
	£'000	£'000	£'000
Valuation at 1 January 2009	**26,344**	35,545	41,487
Additions	**281**	–	6
Disposals	**–**	(275)	(2,517)
Revaluation gains/(losses)	**1,200**	(8,926)	(3,431)
Valuation at 31 December 2009	**27,825**	26,344	35,545

In accordance with IAS 40, the carrying value of investment properties is the fair value of the property as determined by Jones Lang LaSalle. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2009, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements.

The independent valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

At 31 December 2009, investment property with a carrying amount of £4,950,000 is charged to Lloyds Banking PLC.

8 Investment property (continued)

The group leases out its commercial investment property under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	2009	2008	2007
	£'000	£'000	£'000
Less than one year	**1,881**	1,828	2,024
Between one and five years	**6,910**	6,786	6,899
More than five years	**7,374**	9,525	10,660
Total	**16,165**	18,139	19,583

Property operating expenses are analysed as follows:

	2009	2008	2007
	£'000	£'000	£'000
Arising from generating rental income	**123**	183	86
Not arising from generating rental income	**130**	117	13
Total	**253**	300	99

9 Equity investments

	2009	2008	2007
	£'000	£'000	£'000
Valuation at 1 January 2009	**7,282**	10,830	11,794
Additions	**515**	750	1,164
Disposals	**(1,723)**	(1,299)	(2,403)
Surplus/(deficit) on revaluation in excess of cost	**1,230**	(2,539)	393
Revaluation decrease below cost	**(18)**	(460)	(118)
Revaluation increase still less than cost	**111**	–	–
Valuation at 31 December 2009	**7,397**	7,282	10,830

The analysis of gains and losses on equity investments shown in the income statement is as follows:

	2009	2008	2007
	£'000	£'000	£'000
Realised gains on equity investments	**263**	5	272
Revaluation gains on equity investments	**1,416**	90	1,320
	1,679	95	1,592

	2009	2008	2007
	£'000	£'000	£'000
Realised losses on equity investments	**141**	446	245
Revaluation losses on equity investments	**93**	3,089	1,045
	234	3,535	1,290

10 Trade and other receivables

	2009	2008	2007
	£'000	£'000	£'000
Trade receivables	**137**	194	45
Bad debt provision	**(61)**	(41)	–
Net trade receivables	**76**	153	45
Other receivables	**27**	70	281
	103	223	326

10 Trade and other receivables (continued)

Amounts due from tenants at each year end includes amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2009, amounts due from tenants which were more than 90 days overdue, which related to rents for 2009 or earlier, totalled £70,000 (2008 £55,000). Provisions against these overdue amounts totalled £41,000 at the beginning of the year, of which £6,000 was released and to which a further £26,000 was added to give a provision of £61,000 at 31 December 2009.

11 Trade and other payables

	2009	2008	2007
	£'000	£'000	£'000
Deferred income	**467**	466	482
Social security and other taxes	**115**	104	81
Other payables	**195**	256	180
	777	826	743

The directors consider that the carrying value of trade and other payables approximates their fair value.

12 Interest bearing loan

	2009	2008	2007
	£'000	£'000	£'000
Medium term bank loan	**–**	1,240	1,909
The medium term bank loan comprises amounts falling due as follows:			
Between one and two years	**–**	28	37
Between two and five years	**–**	165	220
Over five years	**–**	1,047	1,652
	–	1,240	1,909

13 Deferred tax liabilities

Deferred taxation, arising from revaluation gains, provided for in the financial statements is set out below and is calculated using a tax rate of 28% (2008 28%).

	Investment property	**Equity investments**	**Total**
2009	**£'000**	**£'000**	**£'000**
At 1 January 2009	**–**	**688**	**688**
Realised in the year	**–**	**(62)**	**(62)**
Provided in the year	**–**	**343**	**343**
At 31 December 2009	**–**	**969**	**969**

	Investment property	Equity investments	Total
2008	£'000	£'000	£'000
At 1 January 2008	1,124	1,581	2,705
Reversed in the year	(1,124)	(893)	(2,017)
At 31 December 2008	–	688	688

14 Share capital

	2009	2008	2007
	£'000	£'000	£'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000	2,000
Allotted, called up and fully paid 5,167,240 (2008 5,167,240) ordinary shares of 25p each	**1,292**	1,292	1,292

The directors monitor capital on the basis of the carrying amount of equity and operate within the requirements of the articles of association which permit borrowings up to 50% of total equity shown in the latest available audited financial statements.

	2009	2008	2007
	£'000	£'000	£'000
Total equity	**34,435**	31,604	41,713
Medium term debt	**–**	1,254	1,927
Medium term debt as a percentage of total equity	**–**	4.0%	4.6%

15 Capital commitments

There were no capital commitments at 31 December 2009. In December 2008, contracts were exchanged on the purchase of a property in Oxford High Street. The contract value was £266,000 and completion took place in January 2009.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2009 or 31 December 2008.

17 Related party transactions

Kingerlee Holdings Limited owns 25.36% (2008 25.36%) of the company's shares and D H Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. The transactions between the company and Kingerlee Holdings Limited or its subsidiaries, all of which were undertaken on an arm's length basis, were as follows:

	2009	2008
	£'000	£'000
Property income distribution or dividend	**280**	213
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Repairs to properties	**–**	1
Amounts outstanding at the end of the year	**Nil**	Nil

The company owns 100% of Rodenhurst Estates Limited. The transactions between the company and Rodenhurst Estates Limited, all of which were undertaken on an arm's length basis, were as follows:

	2009	2008
	£'000	£'000
Dividend received	**1,000**	800
Management charge receivable	**116**	128
Interest receivable on intercompany loan	**50**	164
Amounts outstanding at the end of the year	**1,040**	3,680

18 Financial instruments and financial risk

Effective from 1 January 2009 the company adopted the amendment to IFRS 7 regarding financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements according to the following hierarchy:

- Level 1: quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis
- Level 2: the fair value of investment properties that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data. Our investment property portfolio is valued by independent valuers in accordance with the RICS Valuation Standards on the basis of market value
- Level 3: the fair value of financial instruments that are not traded in an active market, for example, investments in unquoted companies, is determined by reference to the last known price at which shares were traded.

There have been no transfers between these classifications in the year (2008 none). The change in fair value for the current and previous years is recognised through the consolidated statement of comprehensive income.

IFRS 7 measurement classification – 2009	**Level 3 Unquoted equity investments £'000**	**Level 1 Quoted equity investments £'000**	**Total Quoted and unquoted £'000**	**Level 2 Investment property £'000**	**Total Investments £'000**
Opening cost	**4**	**4,212**	**4,216**	**27,963**	**32,179**
Opening unrealised (loss)/gain	**5**	**3,061**	**3,066**	**(1,619)**	**1,447**
Opening fair value at 1 January 2009	**9**	**7,273**	**7,282**	**26,344**	**33,626**
Additions at cost	**–**	**515**	**515**	**281**	**796**
Disposal proceeds	**–**	**(1,845)**	**(1,845)**	**–**	**(1,845)**
Net profit/(loss) realised on disposal	**–**	**122**	**122**	**–**	**122**
Change in fair value in the year on assets held at 31 December 2009	**–**	**1,323**	**1,323**	**1,200**	**2,523**
Closing fair value at 31 December 2009	**9**	**7,388**	**7,397**	**27,825**	**35,222**
Closing cost	**4**	**3,371**	**3,375**	**28,244**	**31,619**
Closing unrealised (loss)/gain	**5**	**4,017**	**4,022**	**(419)**	**3,603**
At 31 December 2009	**9**	**7,388**	**7,397**	**27,825**	**35,222**

IFRS 7 measurement classification – 2008	Level 3 Unquoted equity investments £'000	Level 1 Quoted equity investments £'000	Total Quoted and unquoted £'000	Level 2 Investment property £'000	Total Investments £'000
Opening cost	4	4,340	4,344	27,966	32,310
Opening unrealised (loss)/gain	5	6,481	6,486	7,579	14,065
Opening fair value at 1 January 2008	9	10,821	10,830	35,545	46,375
Additions at cost	–	750	750	–	750
Disposal proceeds	–	(857)	(857)	(271)	(1,128)
Net profit/(loss) realised on disposal	–	(442)	(442)	(4)	(446)
Change in fair value in the year on assets held at 31 December 2008	–	(2,999)	(2,999)	(8,926)	(11,925)
Closing fair value at 31 December 2008	9	7,273	7,282	26,344	33,626
Closing cost	4	4,212	4,216	27,963	32,179
Closing unrealised (loss)/gain	5	3,061	3,066	(1,619)	1,447
At 31 December 2008	9	7,273	7,282	26,344	33,626

19 Financial instruments and financial risk

Categories of financial instruments

	2009		2008	
	Carrying amount £'000	**Income/ (expense) £'000**	Carrying amount £'000	Income/ (expense) £'000
Financial assets at fair value through the income statement				
Equity investments	**7,397**	**1,323**	7,282	(2,999)
Loans and receivables				
Trade and other receivables	**103**	**–**	223	–
Cash and cash equivalents	**946**	**–**	963	–
	1,049	**–**	1,186	–
Financial liabilities measured at amortised cost				
Trade and other payables	**777**	**–**	826	–
Interest bearing loan	**–**	**–**	1,254	–
	777	**–**	2,080	–

Fair value and maturity of financial instruments

The group has no derivative financial instruments. Exposure to credit, liquidity and market risks arises in the normal course of the group's business. At 31 December 2009 the group had no borrowings and fair values were not materially different from book values.

Market risk

Market risk arises from the group's activities as investors in properties and equities. The valuation of these investments is the principal area of judgement exercised by the directors and in so doing they take the valuations of external advisers, carried out at the balance sheet date but in the knowledge that market conditions change from time to time.

Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for doubtful receivables, estimated by the directors. The allowance as at 31 December 2009 was £61,000 (2008 £41,000).

The group has no significant concentration of credit risk, with exposure spread over a number of tenants. The credit status of tenants is continuously monitored and particularly reviewed before properties are acquired, before properties are let and before new leases are granted.

The group's cash holdings are mainly in Lloyds Banking Group PLC and cash is also held by the group's property managers and brokers acting as agents, though not for long periods of time.

Liquidity risk

The group's liquidity risk, i.e. the risk that it might encounter difficulty in meeting its obligations, applies to its trade payables and medium term borrowings. The group has not encountered any difficulty in paying its trade payables in good time and has met all of the obligations of its medium term borrowing.

19 Financial instruments and financial risk (continued)

Interest rate risk

The group finances its operations through retained profits and medium term borrowings. Neither fixed rate instruments nor interest rate swaps have been used. The group places any cash balances on deposit at rates which are fixed in the short term but for sufficiently short periods that there is no need to hedge against the implied risk.

When medium term borrowings are used variable rates of interest apply. The weighted average interest rate paid in 2009 was 1.6% (2008 5.6%). If base rate averaged 0.5% higher than it did in 2009, then the group's net finance expenses would have been £6,000 higher. Similarly, had base rate averaged 0.5% lower than it did in 2009, then the group's net finance expenses would have been £6,000 lower. Interest rate risk arises from the use of interest bearing financial instruments and is the risk that future cash flows from financial instruments will fluctuate due to changes in interest rates. Interest rates are variable and the directors considered that the cost of fixed rates is too great in relation to the risk that would be reduced by fixing. This policy was regularly reviewed.

Currency exchange risk

The group is not directly exposed to currency risk as it does not trade in foreign currencies. However, most of the group's equity investments are held in international companies and 22.5% (2008 17.1%) of the equity investment portfolio comprises overseas holdings. The inherent currency risk affecting those holdings is an indistinguishable factor in determining their market value and is taken into consideration as part of the overall assessment of investment risk.

Maturity of group financial liabilities

The analysis at 31 December 2009 of group financial liabilities, which are at variable rates, is as follows:

	2009	2008
	£'000	£'000
In less than one year or on demand:		
Bank borrowings	–	14
In more than one year but less than two years:		
Bank borrowings	–	28
In more than two years but less than five years:		
Bank borrowings	–	165
In more than five years:		
Bank borrowings	–	1,047
Total	–	1,254

Borrowing facilities

The group has no undrawn committed borrowing facilities.

20 Net assets per share

	2009	2008
	£'000	£'000
Net assets	**34,435**	31,604
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**666p**	612p

Five year summary

	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Investment properties – at annual valuation	**27,825**	26,344	35,545	41,487	33,461
Equity investments – at market value	**7,397**	7,282	10,830	11,794	10,620
Total net assets	**34,435**	31,604	41,713	42,875	39,164
Net asset value per share in issue at end of each year	**666p**	612p	807p	830p	758p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**1,943**	2,124	2,126	2,038	1,917
Dividend income	**292**	450	406	489	339
Profit available for distribution	**1,670**	1,922	1,562	1,500	1,366
Share capital					
Average number in issue (000s)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings/(loss) per ordinary share	**76.2p**	(179.3p)	(8.5p)	84.8p	102.3p
Adjusted earnings per ordinary share	**32.3p**	37.3p	30.2p	29.0p	26.4p
Dividends paid per ordinary share					
	26.00p	18.40p	14.25p	13.70p	12.65p
All-Share Index	**2,761**	2,141	3,287	3,221	2,847
Highcroft year end share price	**445p**	305p	717p	732p	615p

Report of the Independent Auditor to the members of Highcroft Investments PLC

We have audited the financial statements of Highcroft Investments PLC for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the financial statements, the parent company balance sheet and the notes to the parent company financial statements. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 2 to 5 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Report of the Independent Auditor (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 5, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Tracey James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
9 March 2010

Company balance sheet

at 31 December 2009

	Note	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Fixed assets					
Investments	5		**34,267**		29,047
Current assets					
Debtors	6	**1,047**		3,683	
Cash at bank		**299**		133	
		1,346		3,816	
Creditors – amounts falling due within one year	7	**208**		571	
Net current assets			**1,138**		3,245
Total assets less current liabilities			**35,405**		32,292
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
– Realised capital	9	**4,679**		4,286	
– Capital redemption		**95**		95	
– Revaluation	9	**26,808**		24,241	
– Profit and loss account	9	**2,531**		2,378	
			34,113		31,000
Shareholders' funds	11		**35,405**		32,292

These financial statements were approved by the board of directors on 9 March 2010.

J S Hewitt

J Hewitt

J Kingerlee

J C Kingerlee
Directors
Company number – 224271

The accompanying notes form an integral part of these financial statements.

Notes to the company's financial statements

for the year ended 31 December 2009

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP accounting standards and under the historical cost convention except for the revaluation of fixed assets. The principal accounting policies of the company have remained unchanged from the previous year.

Income from fixed asset investments

Income from fixed asset investments includes dividends received in the year and interest receivable for the year.

Dividends payable

Dividend payments are dealt with when paid as a change of equity in the revenue reserve. Final dividends proposed are not recognised as a liability.

Investments

Investments are included at the following valuations:

- shares in subsidiary undertaking – at market value (net assets as shown by its financial statements are taken as a reasonable estimate of market value)
- equity investments (all listed on a recognised investment exchange) – at market value
- unlisted investments – at market value estimated by the directors.

Gains and losses arising on revaluation are taken to the revaluation reserve.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Unprovided deferred taxation would crystallise on the sale of assets at their balance sheet value.

Gains on disposals of assets

Gains on disposals of assets are the excess of net proceeds over the valuation at the beginning of the year. They are not available for distribution under the company's articles of association and are taken to realised capital reserve.

2 Company profit for the year after tax

The company has not presented its own profit and loss account as permitted under section 408 of the Companies Act 2006. The profit after tax for the year was £2,490,000 (2008 £2,387,000 loss). Information regarding directors' remuneration appears on pages 14 and 15 of the consolidated financial statements.

3 Auditor's fees

	2009	2008
	£'000	£'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**19**	9
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**–**	10
Tax services	**–**	11
Other services pursuant to legislation	**3**	1
	22	31

In 2009 the auditor's fees for the company's subsidiary have been included with the auditor's fee for the company.

4 Dividends

In 2009, the following dividends have been paid by the company.

	2009	2008
	£'000	£'000
2008 Final: 11.4p per ordinary share (2007 9.25p)	**589**	478
2009 Interim: 10.0p per ordinary share (2008 7.0p)	**518**	362
	1,107	840

On 9 March 2010, the directors declared a property income distribution of 16p per share (2008 11.4p) payable on 2 June 2010 to shareholders registered at 7 May 2010.

5 Equity investments

		Shares in subsidiary	Other investments	
	Total	undertaking	Listed	Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2009	29,047	21,765	7,273	9
Additions at cost	3,915	3,400	515	–
Disposals	(1,723)	–	(1,723)	–
Surplus on revaluation in excess of cost	2,935	1,705	1,230	–
Revaluation decrease below cost	(18)	–	(18)	–
Revaluation increase still less than cost	111	–	111	–
Valuation at 31 December 2009	34,267	26,870	7,388	9

Notes to the company's financial statements (continued)

5 Equity investments (continued)

Equity investments are included at their market value. If investments had not been revalued they would have been included on the historical cost basis at the following amounts:

	Total	Shares in subsidiary undertaking	Other investments Listed	Other investments Unlisted
	£'000	£'000	£'000	£'000
Cost at 31 December 2009	7,129	3,754	3,371	4
Cost at 31 December 2008	4,570	354	4,212	4

At 31 December 2009, the group held 100% of the allotted ordinary share capital and voting rights of Rodenhurst Estates Limited which is a property owning company, registered in England and Wales and operating in England.

6 Debtors

	2009	2008
	£'000	£'000
Owed by subsidiary undertaking	**1,044**	3,680
Other debtors	**3**	3
	1,047	3,683

7 Creditors – amounts falling due within one year

	2009	2008
	£'000	£'000
Corporation tax	**90**	423
Other taxes and social security	**1**	13
Other creditors	**117**	135
	208	571

8 Share capital

	2009	2008
	£'000	£'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2008 5,167,240) ordinary shares of 25p each	**1,292**	1,292

9 Reserves

	Revaluation £'000	Realised capital £'000	Retained earnings £'000
At 1 January 2009	24,241	4,286	2,378
Profit retained	–	–	2,490
Dividends paid	–	–	(1,107)
Revaluation surplus – equities	1,230	–	(1,230)
Revaluation surplus – Rodenhurst Estates Limited	1,705	–	–
Realised gains	–	88	–
Tax on realised gains	–	(63)	–
Surplus attributable to assets sold in the year	(368)	368	–
At 31 December 2009	26,808	4,679	2,531

The revaluation reserve includes annual revaluation gains and losses, less attributable taxation. The realised capital reserve includes realised revaluation gains and losses, less attributable taxation. In accordance with the articles of association the revaluation and realised capital reserves are not distributable.

10 Deferred taxation

Deferred taxation provided and unprovided for in the financial statements is set out below and is calculated using a tax rate of 28% (2008 28.5%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Unrealised capital gains	–	–	**6,353**	4,651

11 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit/(loss) for the financial year	**2,490**	(2,387)
Dividends	**(1,107)**	(840)
	1,383	(3,227)
Other recognised gains and losses:		
Surplus/(deficit) on revaluation of assets	**1,705**	(8,290)
Realised gains/(losses)	**88**	(439)
Tax on prior years' surplus now realised	**(63)**	–
Net increase/(decrease) in shareholders' funds	**3,113**	(11,956)
Shareholders' funds at 1 January 2009	**32,292**	44,248
Shareholders' funds at 31 December 2009	**35,405**	32,292

Notes to the company's financial statements (continued)

12 Capital commitments

There were no capital commitments at 31 December 2009 or at 31 December 2008.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2009 or at 31 December 2008.

14 Related party transactions

Kingerlee Holdings Limited owns 25.36% (2008 25.36%) of the company's shares and D H Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. The transactions between the company and Kingerlee Holdings Limited or its subsidiaries, all of which were undertaken on an arm's length basis, were as follows:

	2009	2008
	£'000	£'000
Property income distribution or dividend	**280**	213
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Amounts outstanding at the end of the year	**Nil**	Nil

Under the provision of FRS 8, transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

Directors and advisers

Company number	224271
Directors	John Hewitt, MA (non-executive chairman) Christopher Clark, BA FCIS (non-executive) Richard Stansfield, BSc FRICS (non-executive) Jonathan Kingerlee (chief executive) David Bowman, BA FCA (finance) David Kingerlee (executive)
Company secretary	David Bowman, BA FCA
Independent auditor	Grant Thornton UK LLP Registered Auditor Chartered Accountants 1 Westminster Way Oxford OX2 0PZ
Bankers	Lloyds Banking PLC The Atrium Davidson House Forbury Square Reading RG1 3EU
Corporate finance advisers	Charles Stanley Securities 131 Finsbury Pavement London EC2A 1NT
Property advisers	King Sturge LLP 30 Warwick Street London W1B 5NH
Independent valuers	Jones Lang LaSalle 22 Hanover Square London W1A 2BN
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Solicitors	Clarks LLP One Forbury Square The Forbury Reading RG1 3EB
Registered office	Thomas House Langford Locks Kidlington Oxon OX5 1HR www.highcroftplc.com

Back cover
Top left: Bank premises in Petersfield, let to Barclays
Top right: Retail unit in Oxford, let to Hotel Chocolat
Bottom left: Licensed leisure and retail property in Warrington
Bottom right: Retail unit in Beckenham, let to Superdrug

Highcroft Investments PLC
Thomas House
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