Highcroft
Investments PLC

Annual Report & Financial Statements

31 December 2011

STOCK CODE: HCFT

www.highcroftplc.com

Highcroft Investments PLC is a Real Estate Investment Trust (REIT) that has a portfolio of property and equity investments.

The broad objectives of the group 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 2011, including relevant key performance indicators, follows:

- **To continue to focus on the commercial property portfolio; creating opportunities to enhance valuations and income**
- **To continue to reduce the residential property portfolio when opportunities arise**
- **To have such a proportion of funds in equity investments as maintains a lower risk profile than would attach to a portfolio which was 100% invested in property**

The directors are well aware that the current economic circumstances increase the risks for all organisations, but we continue to believe that the strategy remains appropriate.

Key Highlights

- **Gross property income increased by 4% to £2,129,000**
- **Profit for the year on revenue activities up 5% to £2,066,000**
- **Adjusted earnings per share (on revenue activities) up 6% to 40.1p**
- **Net asset value per share up from 716p to 720p**
- **Total property income distribution up 5% to 30.0p per share**

Dividends payable

- 2011: **30.0p**
- 2010: **28.6p**
- 2009: **26.0p**
- 2008: **18.4p**

Dividends payable for the year are calculated as the sum of the interim and final dividend.

Net asset value per share

- 2011: **720p**
- 2010: **716p**
- 2009: **666p**
- 2008: **612p**

Net asset value per share is calculated as the net assets divided by the total number of issued shares

For more information on our investments go to pages 2 and 3

Contents

The report of the directors on pages 8 to 14 and the directors' remuneration report on pages 15 and 16 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 2011. Pages 1 to 16, including the chairman's introduction, corporate governance statement, report of the directors and directors' remuneration report form part of the report of the directors.

Stock Code: HCFT

Chairman's Introduction

Dear shareholder,

I am pleased to introduce our annual report and accounts for the year ended 31 December 2011. I fear that shareholders reading this statement may experience a sense of déjà vu as my cautionary comments a year ago – about the national economy, the lack of prospects for growth, the subdued consumer attitude and resultant impact on retailers and commercial rents – apply equally today, with a European sovereign debt crisis thrown in for good measure. That said, I think I can echo my words of last year in that we have acquitted ourselves reasonably well in the circumstances.

Results for the year

I am pleased to report that we have made further, albeit modest, progress in a number of areas.

Property: Our gross property income rose 4% to £2,129,000 (2010: £2,053,000), despite falling residential property income as a result of disposals. Sales of vacant residential houses and flats produced nearly £2,086,000 of cash, very significantly above cost and £393,000 above the December 2010 valuations. Our commercial property in Yeovil, which had been vacant since 2009, was re-let in July and we then disposed of it in November. We benefited from a full year of rental income from the freehold industrial unit in Warwick that we purchased at the end of 2010. I can now confirm the completion of the purchase of an industrial unit in Andover which was mentioned in our interim report. This has a strong covenant, is let on a 23 year lease, and currently yields 6.4%. Again, we have to express our disappointment at the relative lack of success in being able to buy properties of the quality which we are seeking for our portfolio. The general recession in national property prices has tended to result in lower-quality portfolios being sold, often by banks, while the competition for properties matching our criteria; (lot size, lease length, yield, and tenant strength) is still quite strong.

Equities: Our average income yield of 4.7% on the portfolio, coupled with a realised net gain of £57,000 and an unrealised net loss of £247,000, are a result of the strength of our portfolio during what has been a turbulent period for the equities markets.

Administrative expenses: Our ongoing administrative expenses declined by 4% when normalised for the £20,000 of one-off costs associated with the General Meeting in May.

Financial Highlights: Profit on revenue activities showed a 5% improvement on 2010. Turning to our capital performance, both our property and equity portfolios showed net valuation losses for the year, although the defensive strength of the underlying assets in both classes cushioned us from the significant losses that have been seen in some sectors.

Our year-end net asset value edged ahead very marginally to 720p (2010: 716p), held back by the fall in property valuations in the second half of the year. Our year-end cash position was £1,926,000 (2010: £2,472,000), whilst readily realisable equity investments totalled £5,598,000 (2010: £5,608,000).

Dividend

We are recommending a final dividend of 18.5p per share (2010: 17.6p) to be paid on 1 June 2012, making a total of 30p for the year (2010: 28.6p). This increase of 5% for the year continues our recent record of dividend increases in excess of inflation.

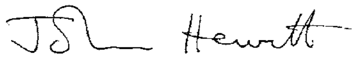
Board

It is with regret that I inform you that Christopher Clark has given notice that he wishes to retire from the board on 31 May 2012, having reached his 70th birthday. Christopher has served on the board, as chairman of the audit committee and as a member of the nomination and remuneration committee since 1 January 2006, and I would like to thank him for his loyal and diligent service during this period and wish him well in his retirement.

Outlook

Our property portfolio currently has no voids, the ground floor at Victoria having been let as from 1 March. Recent industry surveys show that retail voids are running nationally at 14.3% with evidence of trading stress in many High Streets. We continue to monitor closely the health of our existing and potential tenants. The location of the bulk of our property investments, both in terms of dominance in the southern counties and location within prime areas of most cities and towns in which we are represented, continues to result in a better than average experience in values, rents and voids. We continue to manage our assets well and are alert to possible opportunities within the portfolio. We see our principal task in the next year or two being to take advantage of the weak market to invest in properties which will enable us to continue to grow revenues and asset values over the medium term. We have the financial strength and the borrowing capacity; we continue though to be prudent and do not want to compromise on our criteria. In continuing uncertain times, I hope shareholders will draw comfort from our strategy.

I look forward to welcoming shareholders to the AGM on 10 May.



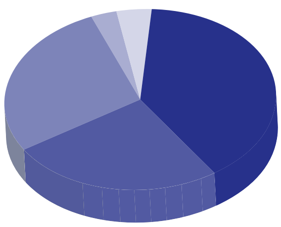
John Hewitt
Chairman
14 March 2012

Our Investments

Highcroft's investment portfolio comprise 85% freehold and long leasehold properties and 15% blue chip equities.

Property investments by sector

Our properties are located primarily in London and the South East and our commercial tenants are chosen for their strong covenants and sector diversity.



Retail Property	39%
Warehouse	28%
Office Property	26%
Residential	4%
Leisure	3%

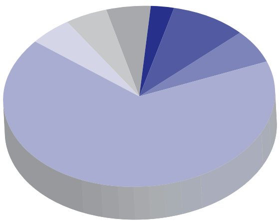
Property portfolio valuation

	£'000
Commercial	
1 Multi-let office building in London, SW1	3,400
2 Industrial Unit in Andover, **let to Jewsons**	2,725
3 Radio station and office building in Oxford, **let to the BBC**	2,600
4 Distribution centre in Kidlington, Oxfordshire, **let to Parcelforce**	2,500
5 Office building in central Bristol, **let to Royal & Sun Alliance**	1,925
6 Distribution centre in Southampton, **let to Metabo**	1,825
7 Retail unit in Oxford, **let to Britannia Building Society**	1,795
8 Multi-let retail units in Staines, with offices above	1,750
9 Retail unit in Leamington Spa, **let to Thorntons**	1,475
10 Industrial unit in Warwick, **let to Nationwide Car Repair**	1,475
11 Multi-let retail units in Cirencester, with residential above	1,375
12 Retail unit in Norwich, **let to Austin Reed**	1,275
13 Bank premises in Petersfield, **let to Barclays**	1,120
14 Retail unit in Oxford, **let to Britannia Building Society**	1,050
15 Licensed leisure and retail property in Warrington, **let to Wetherspoons**	975
16 Bank premises in Reigate, **let to Lloyds Banking Group**	900
17 Retail unit in Beckenham, **let to Superdrug**	875
18 Retail unit in Kingston, **let to Kaleido**	600
Total Commercial	29,640
Residential	1,147
Total	30,787

Equity investments

Our equity portfolio has been chosen to be diverse by both geography and sector and the splits are set out below

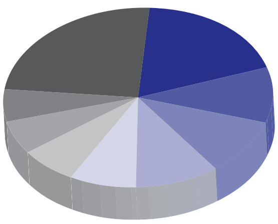
Geographical split



England	66%
Australia	9%
Canada	6%
Netherlands	5%
USA	5%
Asia Pacific	3%
Other Markets	5%

Split by sector

The split of our equity portfolio by sector is set out below.



Banks	19%
Oil & Gas	10%
Gas, Water & Multiutilities	10%
Pharmaceuticals & Biotechnology	10%
Unit Trusts & Oeics	8%
Mobile Telecommunications	7%
Mining	6%
Beverages	6%
Other	24%

Corporate Governance

Application of principles
The company has applied the principles of good governance contained in the U.K. Corporate Governance Code (June 2010) (formerly the Combined Code) hereafter referred to as "the Code" except as noted in the Compliance Statement below.

Compliance
The company has complied throughout the year with the Code provisions except that no performance related payments were made to directors, which is not in accordance with Code provision D1.1. 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 2011 the number of board and committee meetings and individual participation was as follows:

	Board	Audit	Remuneration	Nomination
Number of meetings	6	3	4	0
J Hewitt	6	3	4	n/a
R N Stansfield	6	3	4	n/a
C J Clark	6	3	4	n/a
J C Kingerlee	6	n/a	n/a	n/a
R Miles	6	3 (part)	n/a	n/a
D H Kingerlee	6	n/a	n/a	n/a

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. The chairman reviews directors' training needs annually and appropriate training is available for new directors and other directors as identified by that plan.

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 8.

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 on a periodic basis.

Directors' remuneration

The directors' remuneration report is on pages 15 and 16. 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. The proxy votes will in the future be included on the company's website. The company has no institutional shareholders but has commenced a programme of meetings with key shareholders, subject to regulatory constraints. It is expected that these will usually involve the chairman and chief executive. The board is provided with feedback from these meetings.

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 7, and that of the auditor on page 34. A statement on going concern appears on page 6.

The audit committee of the board comprises all the non-executive directors and is chaired by Christopher Clark and includes one member who has recent and relevant financial experience. 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. They have also received and reviewed written disclosures from the auditor regarding independence. The audit committee has referenced audit fees with similar auditors and decides how frequently the audit should be put out to tender. The audit committee reviews the appointment of the external auditor on an annual basis and makes a recommendation to the board for their reappointment to be approved at the AGM.

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 and the conclusion was that the systems are adequate for a group of this size and complexity. 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

Corporate Governance continued

- 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 the Code.

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 2011 and the period up to the date of approval of the financial statements.

The board also has a nomination committee comprising the non-executive directors whose key objective is to ensure that the board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities.

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 regularly. 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 group does not currently have an overdraft facility or a loan facility. However, contact is maintained with a number of banks which regard the group as an attractive lending opportunity. The group 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 listed 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 2011 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 prepared the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the company and 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 are sufficient to show and explain the company's transactions and 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 company and 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 auditor is 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 auditor is 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

Roberta Miles

R Miles
Company Secretary
14 March 2012

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, 66, worked in the City of London in stockbroking for over 20 years where he became managing director of Scrimgeour Vickers. He is currently campaign adviser to Wadham College Oxford and a trustee of the Oxfordshire Association for the Blind. He also advises a number of other local and international businesses and organisations. He was appointed as an independent non-executive director in 1999.
Christopher Clark	Christopher Clark, 69, was appointed as an independent non-executive director in January 2006. He is also the non-executive chairman of Brookwell Limited and is a marketing consultant with Monument Securities Limited and with Lehmann Communications plc. He previously worked as a stockbroker and is a Fellow of the Chartered Institute of Secretaries & Administrators and a Fellow of the Chartered Institute for Securities and Investment.
Richard Stansfield	Richard Stansfield, 54, 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 U.K. 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, 51, 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 Kingerlee	David Kingerlee, 50, 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.
Roberta Miles	Roberta Miles, 49, was appointed finance director and company secretary in 2010. She is also a director of Mechadyne Holdings Limited and acts as company secretary or chief financial officer for a number of other companies.

In accordance with the articles of association Christopher Clark and David Kingerlee retire by rotation and, being eligible, offer themselves for re-election.

John Hewitt, having served more than nine years on the board, submits himself for re-election. Before recommending John for re-election the other directors have conducted a rigorous appraisal of performance and consider him to be independent, effective and to demonstrate commitment to the role.

Richard Stansfield, having also served more than nine years on the board, submits himself for re-election. Before recommending Richard for re-election the other directors have conducted a rigorous appraisal of performance and consider him to be independent, effective and to demonstrate commitment to the role.

Christopher Clark has notified the company that he wishes to retire from the board with effect from 31 May 2012 having attained the age of 70.

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 2011 and at 31 December 2011 were as follows:

	31 December 2011		1 January 2011	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
J Hewitt	**10,000**	**–**	10,000	–
C J Clark	**4,950**	**–**	4,950	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**130,986**	**–**	130,986	–
R Miles	**–**	**–**	–	–
D H Kingerlee	**88,470**	**77,780**	88,470	77,780

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

- 38,890 of the beneficial holding of Jonathan Kingerlee and 38,890 of the non-beneficial holding of David Kingerlee.

In the period from 1 January 2012 to 14 March 2012 the following change to director's shareholdings took place:

On 8 February 2012 a newly created trust, benefiting an infant son of Jonathan Kingerlee, acquired 19,445 ordinary shares in the company. Jonathan Kingerlee and David Kingerlee are both trustees of this Trust Fund. The beneficial holding of Jonathan Kingerlee and the non-beneficial holding of David Kingerlee therefore rose by 19,445 as a result of this transaction.

Substantial shareholders

As at 14 March 2012 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	
		Beneficial	Non-beneficial
D G & M B Conn and associates	**(20.06%)**	**1,036,567**	**–**
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 2011, 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.

Report of the Directors continued

- To continue to focus on the commercial property portfolio.

Allocation of total investments	**2011**	2010	2009	2008	2007
	%	%	%	%	%
Commercial property	**82**	78	72	72	71
Residential property	**3**	7	7	6	6
Equity investments	**15**	15	21	22	23
Total	**100**	100	100	100	100

In November 2011 we completed the purchase of an industrial unit in Andover which has a good covenant and yield and an unexpired term that is longer than the average on our portfolio.

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

Number of residential disposals	**2011**	2010	2009	2008	2007
Per annum	**4**	1	0	1	1

The group had historically planned for two residential disposals per year but as we sell only with vacant possession the annual rate is not within its control. We now have only four residential units with regulated tenancies therefore, whilst the group still plans to dispose of them on an opportunistic basis it is recognised that this is not possible to plan for.

- 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. At 31 December 2011 equity investments represented 15% (2010: 15%) of total investments.

We invested £180,000 of our net cash flow into the equity portfolio. The board will continue to monitor the condition of the equity and property markets in 2012 and would consider making a 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.

We are continuing to explore potential development opportunities at our properties in High Street Oxford, Staines and in Victoria.

- 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 there were again no suitable properties identified in 2011. Our new acquisition of an industrial unit at the end of 2011 was chosen because of the combination of its yield, its covenant and its unexpired lease length.

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

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 when we feel that the timing is appropriate to make significant new acquisitions.

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 2011 of 18.5p (2010: 17.6p) per share. The total property income distributions for the year will be 30.0p per share (2010: 28.6p per share).

The dividends paid to shareholders during 2011 were as follows:

	2011 £'000	2010 £'000
2010 Final: 17.6p per ordinary share (2009: 16.0p)	**909**	827
2011 Interim: 11.5p per ordinary share (2010: 11.0p)	**594**	568
	1,503	1,395

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 2011 was £2,390,000 (2010: £2,287,000).

Analysis of gross income	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Commercial property income	**2,086**	1,995	1,877	2,050	2,062
Residential property income	**43**	58	66	74	64
Gross income from property	**2,129**	2,053	1,943	2,124	2,126
Income from equity investments	**261**	234	292	450	406
Total income	**2,390**	2,287	2,235	2,574	2,532

Underlying commercial property income has risen in 2011 because the industrial unit in Warwick bought at the end of 2010 generated income all year, Warrington was fully let from August 2010 and the Yeovil property, that was void for all of 2010, was let in July prior to being sold in November. Additionally we had one void, the ground floor of our Victoria property, throughout 2011. We have now signed a new lease on this unit with effect from 1 March 2012.

Residential property income reduced in 2011 relative to 2010 because of the sale of four of our properties during the year. The remaining income is generated from four regulated tenancies, and ground rents.

The 2011 income from equity investments rose as a result of one special dividend of £48,000. The underlying drop after taking this into account reflects the reduction in our equity portfolio during the first six months of 2010.

Analysis of administrative and net finance expenses	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Directors' remuneration	**162**	156	139	166	133
Auditor's remuneration including other services	**21**	20	22	34	31
Fees in respect of conversion to a REIT	**–**	–	–	47	147
Other expenses	**152**	154	122	77	80
Administrative expenses	**335**	330	283	324	391
Net finance (income)/expenses	**(15)**	(9)	18	61	209
Total expenses	**320**	321	301	385	600

Report of the Directors continued

The ongoing running costs of the business remain well controlled. The main factor that affected the costs in 2011 was the £20,000 of irrecoverable costs associated with the general meeting in May that was requisitioned by certain of our shareholders.

Donations

Donations to charitable organisations amounted to £11,400 (2010: £4,800). There were no political donations.

Summary of profit before tax and income tax credit/(expense) on revenue activities	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Profit before tax	**2,045**	1,821	1,681	1,889	1,833
Income tax credit/(expense)	**21**	144	(11)	33	(271)
Profit for the year	**2,066**	1,965	1,670	1,922	1,562

Financial performance — capital activities

A summary of our investments is laid out on pages 2 and 3.

Analysis of gains and losses on property	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Realised gains on investment property	**360**	108	–	–	107
Realised losses on investment property	**(82)**	(8)	–	(5)	(6)
	278	100	–	(5)	101
Revaluation gains on investment property	**801**	1,735	1,616	59	388
Revaluation losses on investment property	**(1,072)**	(158)	(416)	(8,985)	(3,819)
	(271)	1,577	1,200	(8,926)	(3,431)

Analysis of gains and losses on equities — capital activities	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Realised gains on equity investments	**81**	69	263	5	272
Realised losses on equity investments	**(24)**	(136)	(141)	(446)	(245)
	57	(67)	122	(441)	27
Revaluation gains on equity investments	**316**	649	1,416	90	1,320
Revaluation losses on equity investments	**(563)**	(73)	(93)	(3,089)	(1,045)
	(247)	576	1,323	(2,999)	275

Summary of investment activities	**2011 £'000**	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Purchase of property	**2,871**	1,558	281	–	6
Purchase of equity investments	**423**	1,028	515	750	1,164
	3,294	2,586	796	750	1,170

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	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Commercial property income	**5%**	6%	(8%)	(1%)	7%
Residential property income	**(26%)**	(12%)	(10%)	16%	(39%)
Total property income	**4%**	6%	(9%)	(0%)	6%
Income from equity investments	**12%**	(20%)	(35%)	11%	(17%)
Total revenue income	**5%**	2%	(13%)	2%	0%

Cost of voids and bad debts	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Voids	**63**	87	108	136	14
Bad debts	**–**	2	26	42	–

The retail property in Yeovil was vacant until July 2011, and the ground floor of our offices in Victoria was vacant throughout the year. A new lease has been signed for the Victoria vacancy in 2012 and we currently have no voids.

Future developments for the business/future outlook

The group is in a very sound financial position with no gearing, and cash and liquid equity investments of over £7.5m. The directors anticipate that there will be an increasing number of properties being marketed in the coming months and that the group is well placed to take advantage of the right opportunities. The board is also considering complementary ways of enhancing the property portfolio (joint ventures, for instance) which it hopes to progress during 2012.

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. We assess the credit worthiness of our current and potential tenants and review any rental arrears on a regular basis.

   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 greater than 75% at the year end. 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.

Report of the Directors continued

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, the 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 26 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 42% (2010: 42%) of current income. The weighted average credit score of these five tenants is presently 92 (2010: 84). The weighted average credit score of the whole portfolio is currently 85 (2010: 84).

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 2011 when average creditor days were 30 (2010: 30).

Financial instruments

Information on financial instruments is included in note 17.

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 10 May 2012.

By Order of the board

Roberta Miles

R Miles
Company Secretary
14 March 2012

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. One-third of the directors are subject to retirement at each annual general meeting. Executive directors are given service contracts within which there is a notice period by either party of six months, and with no provision for compensation payments on termination. Each non-executive director has a formal appointment document for a period of three years, subject, at any time to termination on six months' notice by either party.

If any director agrees to waiver any element of their remuneration, the board will consider making an additional donation to charity.

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

Director's service contracts

Non-executive directors	Date of appointment as director	Date of current appointment letter	Expiry of term
John Hewitt	1 August 1999	1 July 2010	30 June 2013
Christopher Clark	1 January 2006	1 January 2009	*31 May 2012
Richard Stansfield	1 December 2002	1 July 2011	30 June 2014

* Christopher Clark has given notice that he intends to retire from the board on 31 May 2012, following his 70th birthday.

Executive directors	Date of appointment as director	Date of current contract	Notice period
Jonathan Kingerlee	2 February 1995	1 July 2011	Six months
David Kingerlee	12 September 1996	1 July 2009	Six months
Roberta Miles	1 July 2010	1 July 2010	Six months

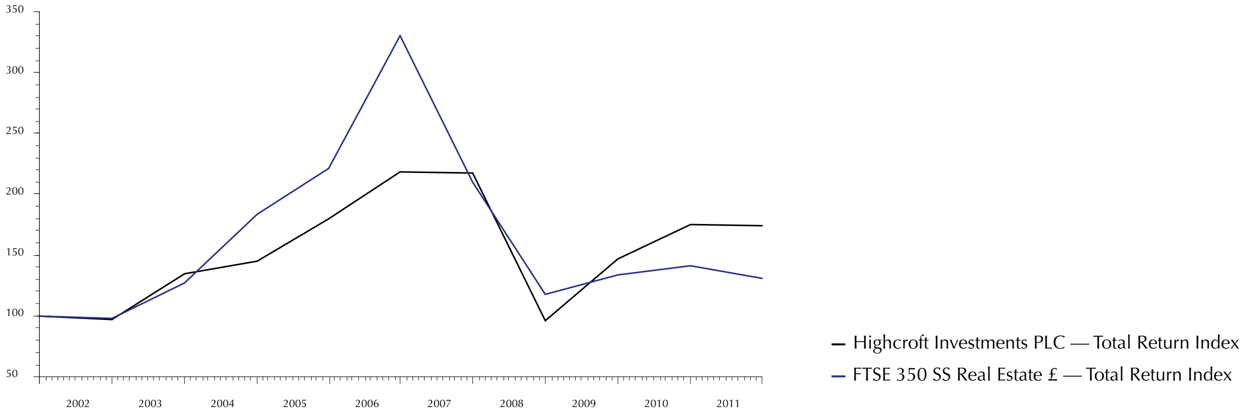
Directors' interests

Directors' interests are shown in the report of the directors on page 9. They are taken from the company's register of directors' interests which is open to inspection, by appointment, at the registered office.

Directors' Remuneration Report continued

Performance graph

The graph below shows the company's Total Shareholder Return (TSR) compared to the FTSE 350 Real Estate index over the last ten years. TSR over the last ten years is defined as share price growth plus reinvested dividends. This comparison provides, in the directors' opinion, a more appropriate comparator than the All Share index used in previous years.



Source: Thomson Reuters Database

Directors' remuneration (audited)

	2011 £	2010 £
John Hewitt	**10,500**	16,000
Christopher Clark	**11,000**	10,700
Richard Stansfield	**11,000**	10,700
Jonathan Kingerlee	**34,750**	34,300
David Bowman (to 30 June 2010)	**–**	20,800
David Kingerlee	**21,000**	20,500
Roberta Miles (from 1 July 2010)	**60,250**	29,900
	148,500	142,900

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.

The above salaries for 2011 included an amount of £4,000 incurred as a result of the general meeting that was requisitioned by certain of the shareholders.

R N Stansfield
Chairman of the remuneration committee
14 March 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Gross rental revenue		**2,129**	**–**	**2,129**	2,053	–	2,053
Property operating expenses	8	**(303)**	**–**	**(303)**	(245)	–	(245)
Net rental income		**1,826**	**–**	**1,826**	1,808	–	1,808
Realised gains on investment property		**360**	**–**	**360**	108	–	108
Realised losses on investment property		**(82)**	**–**	**(82)**	(8)	–	(8)
Net gains on investment property		**278**	**–**	**278**	100	–	100
Valuation gains on investment property		**–**	**801**	**801**	–	1,735	1,735
Valuation losses on investment property		**–**	**(1,072)**	**(1,072)**	–	(158)	(158)
Net valuation (losses)/gains on investment property	8	**–**	**(271)**	**(271)**	–	1,577	1,577
Dividend revenue		**261**	**–**	**261**	234	–	234
Gains on equity investments	9	**–**	**397**	**397**	–	718	718
Losses on equity investments	9	**–**	**(587)**	**(587)**	–	(209)	(209)
Net investment income/(expense)		**261**	**(190)**	**71**	234	509	743
Administration expenses	3	**(335)**	**–**	**(335)**	(330)	–	(330)
Net operating profit before net finance income/(expense)		**2,030**	**(461)**	**1,569**	1,812	2,086	3,898
Finance income		**15**	**–**	**15**	10	–	10
Finance expenses		**–**	**–**	**–**	(1)	–	(1)
Net finance income		**15**	**–**	**15**	9	–	9
Profit/(loss) before tax		**2,045**	**(461)**	**1,584**	1,821	2,086	3,907
Income tax credit/(expense)	5	**21**	**119**	**140**	144	(89)	55
Total profit and comprehensive income for the year		**2,066**	**(342)**	**1,724**	1,965	1,997	3,962
Basic and diluted earnings per share	7	**40.1p**	**(6.7p)**	**33.4p**	38.0p	38.7p	76.7p

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 2011

	Note	**2011 £'000**	2010 £'000	2009 £'000
Assets				
Non-current assets				
Investment property	8	**30,787**	30,705	27,825
Equity investments	9	**5,598**	5,608	7,397
Total non-current assets		**36,385**	36,313	35,222
Current assets				
Trade and other receivables	10	**217**	93	103
Cash and cash equivalents		**1,926**	2,472	946
Total current assets		**2,143**	2,565	1,049
Total assets		**38,528**	38,878	36,271
Liabilities				
Current liabilities				
Current income tax		**–**	215	90
Trade and other payables	11	**681**	897	777
Total current liabilities		**681**	1,112	867
Non-current liabilities				
Deferred tax liabilities	12	**624**	764	969
Total non-current liabilities		**624**	764	969
Total liabilities		**1,305**	1,876	1,836
Net assets		**37,223**	37,002	34,435
Equity				
Issued share capital	13	**1,292**	1,292	1,292
Revaluation reserve — property		**4,904**	6,670	5,696
— other		**1,592**	1,750	2,656
Capital redemption reserve		**95**	95	95
Realised capital reserve		**21,428**	19,810	18,229
Retained earnings		**7,912**	7,385	6,467
Total equity		**37,223**	37,002	34,435

These financial statements were approved by the board of directors on 14 March 2012.

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

2011	Issued share capital £'000	Revaluation reserves: Property reserve £'000	Revaluation reserves: Other reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2011	1,292	6,670	1,750	95	19,810	7,385	37,002
Dividends	–	–	–	–	–	(1,503)	(1,503)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation losses	–	(271)	(238)	–	–	509	–
Tax on revaluation gains/(losses)	–	–	109	–	–	(109)	–
Realised gains	–	–	–	–	(40)	40	–
Surplus attributable to assets sold in the year	–	(1,629)	(29)	–	1,658	–	–
Excess of cost over revalued amount taken to retained earnings	–	134	–	–	–	(134)	–
Transactions with owners	–	(1,766)	(158)	–	1,618	(1,197)	(1,503)
Profit and total comprehensive income for the year	–	–	–	–	–	1,724	1,724
At 31 December 2011	**1,292**	**4,904**	**1,592**	**95**	**21,428**	**7,912**	**37,223**

2010	Issued share capital £'000	Revaluation reserves: Property reserve £'000	Revaluation reserves: Other reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2010	1,292	5,696	2,656	95	18,229	6,467	34,435
Dividends	–	–	–	–	–	(1,395)	(1,395)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	–	1,577	572	–	–	(2,149)	–
Tax on revaluation gains/(losses)	–	–	(93)	–	–	93	–
Realised gains	–	–	–	–	(58)	58	–
Surplus attributable to assets sold in the year	–	(254)	(1,385)	–	1,639	–	–
Excess of cost over revalued amount taken to retained earnings	–	(349)	–	–	–	349	–
Transactions with owners	–	974	(906)	–	1,581	(3,044)	(1,395)
Profit and total comprehensive income for the year	–	–	–	–	–	3,962	3,962
At 31 December 2010	1,292	6,670	1,750	95	19,810	7,385	37,002

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 2011

	2011 £'000	2010 £'000
Operating activities		
Profit for the year	**1,724**	3,962
Adjustments for:		
Net valuation losses/(gains) on investment property	**271**	(1,577)
Gain on disposal of investment property	**(278)**	(100)
Loss/(gain) on investments	**190**	(509)
Finance income	**(15)**	(10)
Finance expense	**–**	1
Income tax (credit)/expense	**(140)**	(55)
Operating cash flow before changes in working capital and provisions	**1,752**	1,712
(Increase)/decrease in trade and other receivables	**(124)**	10
(Decrease)/increase in trade and other payables	**(215)**	120
Cash generated from operations	**1,413**	1,842
Finance income	**15**	10
Finance expenses	**–**	(1)
Income taxes paid	**(216)**	(25)
Net cash flows from operating activities	**1,212**	1,826
Investing activities		
Purchase of non-current assets — investment property	**(2,871)**	(1,558)
— equity investments	**(423)**	(1,028)
Sale of non-current assets — investment property	**2,796**	355
— equity investments	**243**	3,326
Net cash flows from investing activities	**(255)**	1,095
Financing activities		
Dividends paid	**(1,503)**	(1,395)
Net cash flows from financing activities	**(1,503)**	(1,395)
Net (decrease)/increase in cash and cash equivalents	**(546)**	1,526
Cash and cash equivalents at 1 January 2011	**2,472**	946
Cash and cash equivalents at 31 December 2011	**1,926**	2,472

Notes to the Financial Statements

for the year ended 31 December 2011

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 2011 comprise the company and its subsidiary, together referred to as the group. The accounting policies remain unchanged except in respect of the new amended standard IAS 24 which has no impact on these financial statements.

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.

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 consolidated income statement and consolidated statement of financial position. 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 valuations of investment properties and equity investments at fair value are carried out by external advisers who the directors consider to be suitably qualified to carry out such valuations. The primary source of evidence for property valuations is recent, comparable market transactions on arm's-length terms. However the valuation of the group's property portfolio is inherently subjective, which may not prove to be accurate, particularly where there are few comparable transactions. Key assumptions, which are also the major sources of estimation uncertainty used in the valuation, include the value of future rental income, the outcome of future rent reviews, the rate of voids and the length of such voids. These assumptions were formed on the basis of historical information of the group and the best judgement of the directors.

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 2011 and adopted for the first time with no impact on these financial statements

- IAS 24 (revised) Related Party Disclosures

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 or interpretations of existing standards that have been published and are mandatory for the group's future accounting periods beginning on or after 1 January 2012 are:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)

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 2011, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Notes to the Financial Statements continued

for the year ended 31 December 2011

1 **Significant accounting policies** continued

Rental revenue as a lessor

Investment properties are leased to tenants under operating leases. The rental income receivable under these leases is recognised in the income statement on a straight-line basis over the term of the lease. Any rent free period is spread over the period of the lease. Since the risks and rewards of ownership have not been transferred to the lessee, the assets held under these leases continue to be recognised in the company's accounts.

Dividend revenue

Dividend revenue relating to exchange-traded equity investments is recognised in the income statement on the dividend payment 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 and expense

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 when the asset is disposed of.

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.

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 unrealised gain or loss arising from a change in fair value is recognised in the income statement.

Equity investments

The directors have designated the group's qualifying financial assets as fair value through profit and 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 and cash equivalents comprise 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.

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 group has three main operating segments. In identifying these operating segments, management follows the group's distribution of assets in accordance with its investment strategy. 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 whose operating results are regularly reviewed by the group's chief operating decision maker. For management purposes, the group uses the same measurement policies as those used in its financial statements.

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 single-let houses and flats
- financial assets comprising exchange-traded equity investments

Notes to the Financial Statements continued

for the year ended 31 December 2011

2 Segment reporting continued

	2011 £'000	2010 £'000
Commercial property		
Gross income	**2,086**	1,995
Profit for the year	**1,070**	2,690
Assets	**31,714**	28,655
Liabilities	**549**	743
Residential property		
Gross income	**43**	58
Profit for the year	**503**	654
Assets	**1,149**	2,695
Liabilities	**1**	23
Financial assets		
Gross income	**261**	234
Profit for the year	**151**	618
Assets	**5,665**	7,528
Liabilities	**755**	1,110
Total		
Gross rental and dividend income	**2,390**	2,287
Profit for the year	**1,724**	3,962
Assets	**38,528**	38,878
Liabilities	**1,305**	1,876

In 2011 the largest tenant represented less than 10% of gross commercial property income. In 2010 21% of gross commercial property income arose from two tenants each representing more than 10% of income.

3 Administrative expenses

	2011 £'000	2010 £'000
Directors (note 4)	**162**	156
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**19**	19
Fees payable to the company's auditor for other services:		
Other services pursuant to legislation	**2**	1
Other expenses	**152**	154
	335	330

4 Directors

	2011 £'000	2010 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**149**	143
Social security costs	**13**	13
	162	156

The average number of employees, all of whom were directors, of the group during the year was six (2010: six). All directors are considered to be key managers of the company. More detailed information concerning directors' remuneration is shown in the directors' remuneration report.

5 Income tax credit

	2011 £'000	2010 £'000
Current tax:		
On revenue profits	**(20)**	(60)
On capital profits	**15**	(19)
Prior year overprovision	**(1)**	(69)
	(6)	(148)
Deferred tax (note 12)	**(134)**	93
Income tax credit	**(140)**	(55)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.25% (2010: 28%). The differences are explained as follows:

	2011 £'000	2010 £'000
Profit before tax	**1,584**	3,907
Profit before tax multiplied by the standard rate of corporation tax in the UK of 26.25% (2010: 28%)	**416**	1,094
Effect of:		
Tax exempt revenues	**(69)**	(66)
Profit not taxable as a result of REIT status	**(431)**	(976)
Chargeable gains/losses less/(more) than accounting profit	**20**	(38)
Losses carried forward	**(25)**	–
Effect of change in tax rate on deferred tax liability	**(50)**	–
Adjustments to tax charge in respect of prior periods	**(1)**	(69)
Income tax credit	**(140)**	(55)

Notes to the Financial Statements continued

for the year ended 31 December 2011

6 Dividends

In 2011 the following dividends have been paid by the company:

	2011 £'000	2010 £'000
2010 Final: 17.6p per ordinary share (2009: 16.0p)	**909**	827
2011 Interim: 11.5p per ordinary share (2010: 11.0p)	**594**	568
	1,503	1,395

On 14 March 2012 the directors declared a property income distribution of £956,000, 18.5p per share (2010: £909,000, 17.6p per share) payable on 1 June 2012 to shareholders registered at 4 May 2012.

7 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £1,724,000 (2010: £3,962,000) and on 5,167,240 shares (2010: 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2011 and throughout the period since 1 January 2011. 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 £2,066,000 (2010: £1,965,000) has been calculated.

	2011 £'000	2010 £'000
Earnings:		
Basic profit for the year	**1,724**	3,962
Adjustments for:		
Net valuation losses/(gains) on investment property	**271**	(1,577)
Losses/(gains) on investments	**190**	(509)
Income tax on (losses)/gains	**(119)**	89
Adjusted earnings	**2,066**	1,965
Per share amount:		
Earnings per share (unadjusted)	**33.4p**	76.7p
Adjustments for:		
Net valuation losses/(gains) on investment property	**5.3p**	(30.5p)
Losses/(gains) on investments	**3.7p**	(9.9p)
Income tax on (losses)/gains	**(2.3p)**	1.7p
Adjusted earnings per share	**40.1p**	38.0p

8 Investment property

	2011 £'000	2010 £'000	2009 £'000
Valuation at 1 January	**30,705**	27,825	26,344
Additions	**2,871**	1,558	281
Disposals	**(2,518)**	(255)	–
Revaluation (losses)/gains	**(271)**	1,577	1,200
Valuation at 31 December	**30,787**	30,705	27,825

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by external valuers. This valuation has been conducted by Jones Lang LaSalle, and Cluttons (for our new 2011 acquisition only), as external valuers and has been prepared as at 31 December 2011, 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 2011 investment property with a carrying amount of £5,150,000 is charged to Lloyds TSB Bank PLC to provide security for any future borrowings.

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

	2011 £'000	2010 £'000	2009 £'000
Less than one year	**2,091**	2,001	1,881
Between one and five years	**5,730**	6,025	6,910
More than five years	**8,881**	6,332	7,374
	16,702	14,358	16,165

Property operating expenses are analysed as follows:

	2011 £'000	2010 £'000	2009 £'000
Arising from generating rental income	**221**	159	123
Not arising from generating rental income	**82**	86	130
	303	245	253

Notes to the Financial Statements continued

for the year ended 31 December 2011

9 Equity investments

	2011 £'000	2010 £'000	2009 £'000
Valuation at 1 January	**5,608**	7,397	7,282
Additions	**423**	1,028	515
Disposals	**(186)**	(3,393)	(1,723)
(Deficit)/surplus on revaluation in excess of cost	**(238)**	572	1,230
Revaluation decrease below cost	**(15)**	(6)	(18)
Revaluation increase still less than cost	**6**	10	111
Valuation at 31 December	**5,598**	5,608	7,397

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

	2011 £'000	2010 £'000	2009 £'000
Realised gains on equity investments	**81**	69	263
Revaluation gains on equity investments	**316**	649	1,416
	397	718	1,679

	2011 £'000	2010 £'000	2009 £'000
Realised losses on equity investments	**24**	136	141
Revaluation losses on equity investments	**563**	73	93
	587	209	234

10 Trade and other receivables

	2011 £'000	2010 £'000	2009 £'000
Trade receivables	**240**	124	137
Bad debt provision	**(41)**	(44)	(61)
Net trade receivables	**199**	80	76
Other receivables	**18**	13	27
	217	93	103

Amounts due from tenants at each year end include amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2011 amounts due from tenants which were more than 90 days overdue, which related to rents for 2011 or earlier, totalled £48,000 (2010: £52,000). Provisions against these overdue amounts totalled £44,000 at the beginning of the year, of which £3,000 was released, to give a provision of £41,000 at 31 December 2011.

11 Trade and other payables

	2011 £'000	2010 £'000	2009 £'000
Deferred income	**438**	485	467
Social security and other taxes	**26**	138	115
Other payables	**217**	274	195
	681	897	777

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

12 Deferred tax liabilities

Deferred taxation, arising from revaluation gains on equity investments, provided for in the financial statements is set out below and is calculated using a tax rate of 25% (2010: 27%).

	2011 £'000	2010 £'000
At 1 January	**764**	969
Realised in the year	**(6)**	(298)
(Released)/provided in the year	**(134)**	93
At 31 December	**624**	764

13 Share capital

	2011 £'000	2010 £'000	2009 £'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 (2010: 5,167,240) ordinary shares of 25p each	**1,292**	1,292	1,292

The directors monitor capital on the basis of total equity and operate within the requirements of the articles of association. There was no medium-term debt at 31 December 2011 (2010: nil and 2009: nil). The directors manage the group's working capital to take advantage of suitable commercial opportunities as they arise whilst maintaining a relatively low cost capital base. This capital management is principally carried out by the realisation of liquid equity investments, the sale of vacant residential properties and the use of surplus cash. In the medium term the directors may again use medium-term debt to finance future commercial property acquisitions in line with its long-term strategy.

14 Capital commitments

There were no capital commitments at 31 December 2011 or at 31 December 2010.

15 Contingent liabilities

There were no contingent liabilities at 31 December 2011 or 31 December 2010.

Notes to the Financial Statements continued

for the year ended 31 December 2011

16 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 25.36% (2010: 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 group and Kingerlee Holdings Limited or its subsidiaries were as follows:

	2011 £'000	2010 £'000
Property income distribution or dividend	**381**	354
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Repairs to properties	**–**	2
Amounts outstanding at the end of the year	**–**	2

The company owns 100% of Rodenhurst Estates Limited. The transactions between the company and Rodenhurst Estates Limited were as follows:

	2011 £'000	2010 £'000
Dividend received	**3,500**	–
Management charge receivable	**134**	118
Interest receivable on intercompany loan	**18**	5
Amounts outstanding at the end of the year	**3,912**	359

The key management personnel are the directors of the group. Their remuneration is set out in note 4. In addition, the following directors received dividends during the year in respect of their shareholdings:

	2011 £'000	2010 £'000
J Hewitt	**3**	3
C J Clark	**1**	1
J C Kingerlee	**38**	35
D H Kingerlee	**26**	24

17 Financial instruments and financial risk

The following table presents financial instruments measured at fair value in the statement of financial position in accordance with fair value hierarchy. This hierarchy groups financial instruments into three levels based on the significance of issues used in measuring the fair value of the financial instruments. The fair value hierarchy has the following levels:

- 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: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- 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 (2010: 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 — 2011	**Level 3 Unquoted equity investments £'000**	**Level 1 Quoted equity investments £'000**	**Total Quoted and unquoted £'000**
Opening cost	**4**	**2,390**	**2,394**
Opening unrealised gain	**5**	**3,209**	**3,214**
Opening fair value at 1 January 2011	**9**	**5,599**	**5,608**
Additions at cost	**–**	**423**	**423**
Disposal proceeds	**–**	**(243)**	**(243)**
Net gain realised on disposal	**–**	**57**	**57**
Change in fair value in the year on assets held at 31 December 2011	**–**	**(247)**	**(247)**
Closing fair value at 31 December 2011	**9**	**5,589**	**5,598**
Closing cost	**4**	**2,655**	**2,659**
Closing unrealised gain	**5**	**2,934**	**2,939**
At 31 December 2011	**9**	**5,589**	**5,598**

Notes to the Financial Statements continued

for the year ended 31 December 2011

17 Financial instruments and financial risk continued

IFRS 7 measurement classification — 2010	Level 3 Unquoted equity investments £'000	Level 1 Quoted equity investments £'000	Total Quoted and unquoted £'000
Opening cost	4	3,371	3,375
Opening unrealised gain	5	4,017	4,022
Opening fair value at 1 January 2010	9	7,388	7,397
Additions at cost	–	1,028	1,028
Disposal proceeds	–	(3,326)	(3,326)
Net loss realised on disposal	–	(67)	(67)
Change in fair value in the year on assets held at 31 December 2010	–	576	576
Closing fair value at 31 December 2010	9	5,599	5,608
Closing cost	4	2,390	2,394
Closing unrealised gain	5	3,209	3,214
At 31 December 2010	9	5,599	5,608

Categories of financial instruments	2011		2010	
	Carrying amount £'000	Income/ (expense) £'000	Carrying amount £'000	Income/ (expense) £'000
Financial assets designated at fair value through the income statement				
Equity investments	5,598	(247)	5,608	576
Loans and receivables				
Trade and other receivables	217	–	93	–
Cash and cash equivalents	1,926	–	2,472	–
	2,143	–	2,565	–
Financial liabilities measured at amortised cost				
Trade and other payables	681	–	897	–
	681	–	897	–

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 2011 the group had no borrowings and fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values.

Market risk
Market risk arises from that portion of the group's activities relating to investment in equities. This risk relates to the effect of market conditions on the pricing of the equities which forms the key component of their year-end valuation. This risk is mitigated by the equity portfolio being spread by both geography and sector.

17 Financial instruments and financial risk continued

Credit risk

The group's credit risk, ie 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 2011 was £41,000 (2010: £44,000).

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 TSB Bank PLC and cash is also held by the group's property managers, lawyers and brokers acting as agents, though not for long periods of time.

Liquidity risk

The group's liquidity risk, ie the risk that it might encounter difficulty in meeting its obligations, applies to its trade payables and any medium-term borrowings that the group takes out from time to time. The group has not encountered any difficulty in paying its trade payables in good time.

Interest rate risk

The group finances its operations through retained profits and also, from time to time, through 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. There were no borrowings in 2011.

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 23.8% (2010: 24.8%) 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

At 31 December 2011 there were no group financial liabilities at variable rates (2010: £nil).

Borrowing facilities

The group has no undrawn committed borrowing facilities.

18 Net assets per share

	2011 £'000	2010 £'000
Net assets	**37,223**	37,002
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**720p**	716p

Report of the Independent Auditor

to the members of Highcroft Investments PLC

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 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the consolidated 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 statement of directors' responsibilities set out on page 7, 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 and express an opinion on 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/private.cfm.

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 2011 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 4 to 7 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 6, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Grant Thornton UK LLP.

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
OXFORD
14 March 2012

Company Balance Sheet

at 31 December 2011

	Note	**2011** £'000	**2011** £'000	2010 £'000	2010 £'000
Fixed assets					
Investments	5		**33,974**		35,819
Current assets					
Debtors	6	**3,936**		378	
Cash at bank		**61**		1,917	
		3,997		2,295	
Creditors — amounts falling due within one year	7	**144**		356	
Net current assets			**3,853**		1,939
Total assets less current liabilities			**37,827**		37,758
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
— Realised capital	9	**5,783**		5,717	
— Capital redemption		**95**		95	
— Revaluation	9	**27,229**		29,340	
— Retained earnings	9	**3,428**		1,314	
			36,535		36,466
Shareholders' funds	11		**37,827**		37,758

These financial statements were approved by the board of directors on 14 March 2012.

J Hewitt **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 2011

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 investments. 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

The directors manage and evaluate performance on a fair value basis and therefore have designated qualifying financial assets at fair value through the profit and loss account. Other movements are recognised directly in equity.

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 £3,370,000 (2010: £754,000). Information regarding directors' remuneration appears on pages 15 and 16 of the consolidated financial statements.

3 Auditor's fees

	2011 £'000	2010 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**19**	19
Fees payable to the company's auditor for other services:		
Other services pursuant to legislation	**2**	1
	21	20

4 Dividends

In 2011 the following dividends have been paid by the company:

	2011 £'000	2010 £'000
2010 Final: 17.6p per ordinary share (2009: 16.0p)	**909**	827
2011 Interim: 11.5p per ordinary share (2010: 11.0p)	**594**	568
	1,503	1,395

On 14 March 2012 the directors declared a property income distribution of 18.5p per share (2010: 17.6p) payable on 1 June 2012 to shareholders registered at 4 May 2012

5 Investments

	Total	Shares in subsidiary undertaking	Other investments	
			Listed	Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2011	35,819	30,211	5,599	9
Additions at cost	423	–	423	–
Disposals	(186)	–	(186)	–
Deficit on revaluation in excess of cost	(2,073)	(1,835)	(238)	–
Revaluation decrease below cost	(15)	–	(15)	–
Revaluation increase still less than cost	6	–	6	–
Valuation at 31 December 2011	**33,974**	**28,376**	**5,589**	**9**

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	Unlisted
	£'000	£'000	£'000	£'000
Cost at 31 December 2011	**6,413**	**3,754**	**2,655**	**4**
Cost at 31 December 2010	6,148	3,754	2,390	4

At 31 December 2011, the company 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.

At 31 December 2011 the net cash assets of Rodenhurst Estates Limited were £2,375,000 (2010: £30,211,000) and the profit for the financial year was £1,936,000 (2010: £1,763,000).

Notes to the Company's Financial Statements continued

for the year ended 31 December 2011

6 Debtors

	2011 £'000	2010 £'000
Owed by subsidiary undertaking	**3,912**	359
Other debtors	**24**	19
	3,936	378

7 Creditors — amounts falling due within one year

	2011 £'000	2010 £'000
Corporation tax	**–**	215
Other taxes and social security	**7**	7
Other creditors	**137**	134
	144	356

8 Share capital

	2011 £'000	2010 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2010: 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 2011	29,340	5,717	1,314
Profit retained	–	–	3,370
Dividends paid	–	–	(1,503)
Revaluation deficit — equities	(247)	–	247
Revaluation deficit — Rodenhurst Estates Limited	(1,835)	–	–
Realised gains	–	42	–
Tax on realised gains	–	(5)	–
Surplus attributable to assets sold in the year	(29)	29	–
At 31 December 2011	**27,229**	**5,783**	**3,428**

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 25% (2010: 27%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Unrealised capital gains	**–**	–	**5,622**	6,764

11 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**3,370**	754
Dividends	**(1,503)**	(1,395)
	1,867	(641)
Other recognised gains and losses:		
(Loss)/surplus on revaluation of assets	**(1,835)**	3,341
Realised gains/(losses)	**42**	(49)
Tax on prior year's surplus now realised	**(5)**	(298)
Net increase in shareholders' funds	**69**	2,353
Shareholders' funds at 1 January 2011	**37,758**	35,405
Shareholders' funds at 31 December 2011	**37,827**	37,758

12 Capital commitments

There were no capital commitments at 31 December 2011 or at 31 December 2010.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2011 or at 31 December 2010.

14 Related party transactions

Kingerlee Holdings Limited through its subsidiaries owns 25.36% (2010: 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:

	2011 £'000	2010 £'000
Property income distribution or dividend	**381**	354
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Amounts outstanding at the end of the year	**–**	–

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.

Group Five Year Summary (unaudited)

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Investment properties — at annual valuation	**30,787**	30,705	27,825	26,344	35,545
Equity investments — at market value	**5,598**	5,608	7,397	7,282	10,830
Total net assets	**37,223**	37,002	34,435	31,604	41,713
Net asset value per share in issue at end of each year	**720p**	716p	666p	612p	807p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**2,129**	2,053	1,943	2,124	2,126
Dividend income	**269**	234	292	450	406
Profit available for distribution	**2,066**	1,965	1,670	1,922	1,562
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings/(loss) per ordinary share	**33.4p**	76.7p	76.2p	(179.3p)	(8.5p)
Adjusted earnings per ordinary share	**40.1p**	38.0p	32.3p	37.3p	30.2p
Dividends payable per ordinary share	**30.00p**	28.60p	26.00p	18.40p	14.25p
FTSE 350 Real Estate Index	**314**	354	347	322	596
Highcroft year end share price	**465p**	495p	445p	305p	717p

Directors and Advisers

Company number	224271
Directors	John Hewitt, MA (non-executive chairman) Christopher Clark, BA FCIS FCSI (non-executive) Richard Stansfield, BSc FRICS (non-executive) Jonathan Kingerlee (chief executive) Roberta Miles, MA FCA (finance) David Kingerlee (executive)
Company secretary	Roberta Miles, MA FCA
Independent auditor	Grant Thornton UK LLP Statutory Auditor Chartered Accountants 3140 Rowan Place John Smith Drive Oxford Business Park South Oxford OX4 2WB
Bankers	Lloyds TSB Bank PLC The Atrium Davidson House Forbury Square Reading RG1 3EU
Corporate finance advisers	Charles Stanley Securities 131 Finsbury Pavement London EC2A 1NT
Property advisers	Jones Lang LaSalle Limited 30 Warwick Street London W1B 5NH
Independent valuers	Jones Lang LaSalle Limited 22 Hanover Square London W1A 2BN and Cluttons LLP Portman House 2 Portman Street London W1H 6DU
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Solicitors	Clarkslegal LLP One Forbury Square The Forbury Reading RG1 3EB
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