Highcroft Investments PLC

Annual Report & Financial Statements
for the year ended 31 December 2013
www.highcroftplc.com
stock code: HCFT

Welcome to the Highcroft Investments PLC 2013 annual report

Who we are

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

* A REIT is a property company which enables its shareholders to invest in commercial and residential property and receive benefits as if they owned the property directly.

Our strategy

The objectives of the group are to enhance shareholder value via a combination of increasing asset value, increasing profits and increasing dividends. The key elements of our strategy for achieving this are to:

- Sell off non-performing assets which have achieved their growth potential
- Reinvest in properties which offer opportunities for yield/profit enhancement as well as secure income investments
- Invest with a bias, but not exclusively, in south-east England
- Increase the average lot size
- Concentrate on minimising voids and potential voids
- Gradually reduce the relative proportion of our funds held in equity investments.

Our key strengths

- High quality property portfolio
- Strong and sustainable cash flows
- Strategic focus
- Low gearing
- Ability to react swiftly to market opportunities
- Experienced team.

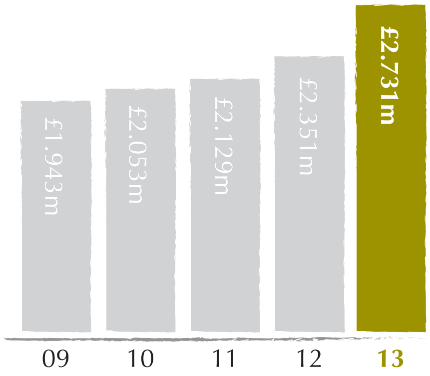
View more information online at:
www.highcroftplc.com

Key highlights

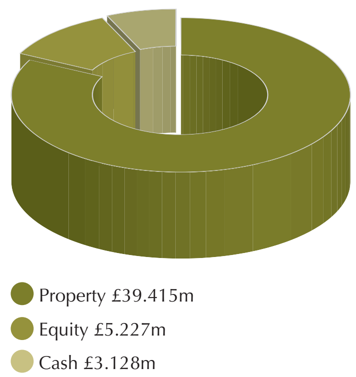
Gross income from property

£2.731m ↑ 16%

2012: £2.351m



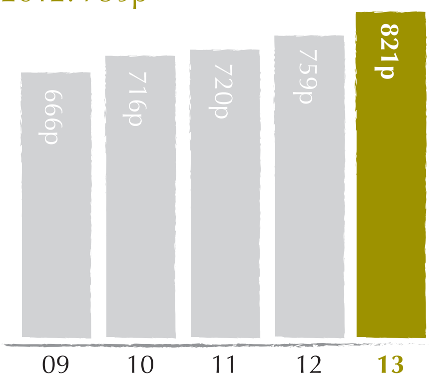
Investments & cash at market value



Net asset value per share

821p ↑ 8%

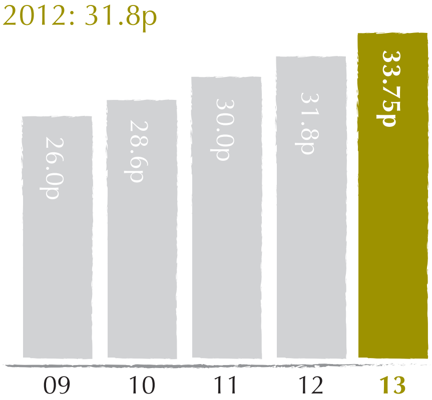
2012: 759p



Dividends payable

33.75p ↑ 6%

2012: 31.8p



- Gross property income increased by 16% to £2,731,000
- Total profit for the year up by 35% to £4,856,000
- Unadjusted earnings per share up 35% to 94.0p
- Net asset value per share up 8% to 821p (2012 759p)
- Total property income distribution up 6.1% to 33.75p per share
- Cash and liquid equity investments £8,355,000 (2012 £8,987,000)
- Medium term debt £4,000,000 (2012 nil)

The report of the directors on page 26 and the directors' remuneration report on pages 22 to 25 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 2013.

Pages 14 to 26, including the chairman's introduction, governance report and the report of the directors form part of the report of the directors.

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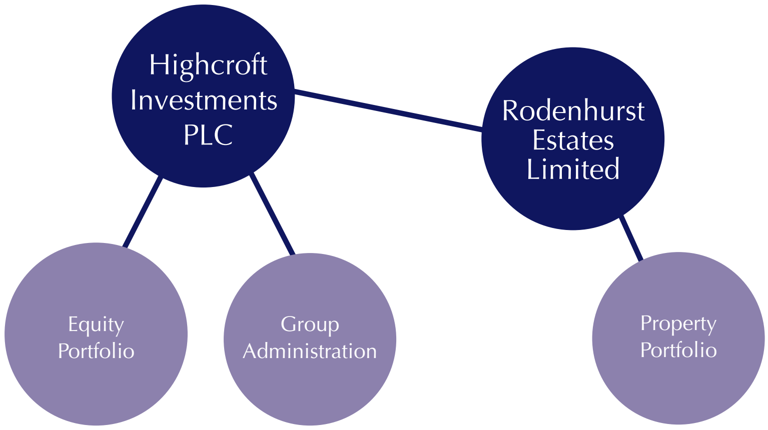
Strategic report – business model and strategy

Introduction by the chairman

I am pleased to introduce our new strategic report which covers the period from 1 January 2013 to 31 December 2013. This is the first time that the company has had to report under the narrative reporting framework in the UK which includes a new requirement to provide a strategic report with certain prescribed content. We have included sections on our business model, an overview of our investments and a detailed summary of our performance in the year. We hope that you find this helpful and would welcome any comments that you have on its content.

Our structure

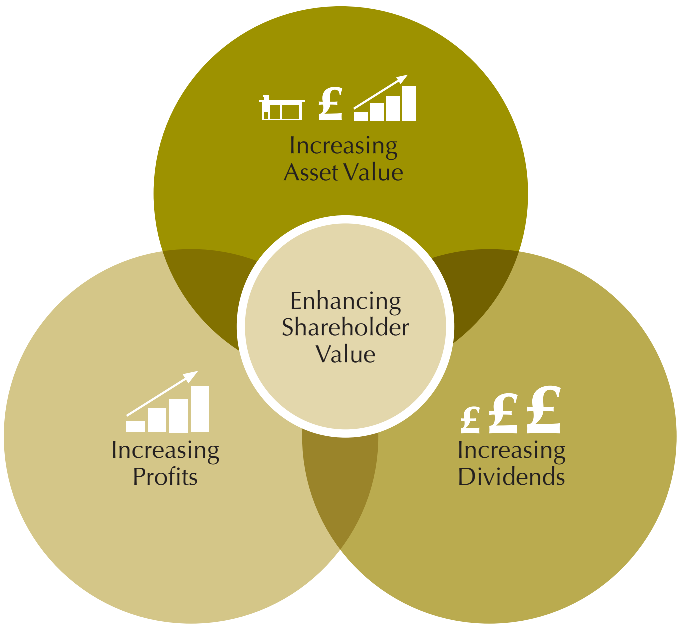
Highcroft Investments PLC is the holding and listed company which owns and manages the equity portfolio and carries out the group administration. Its wholly owned subsidiary Rodenhurst Estates Limited owns the property portfolio and, with its advisers, administers this on behalf of the group. All our properties are wholly owned and we do not have any joint ventures or similar relationships.



Business model

Our business and our objective

Highcroft is a Real Estate Investment Trust (REIT) which has a portfolio of property and equity investments and our aim is to enhance shareholder value via a combination of increasing asset value, increasing profits and increasing dividends.



Our people

Highcroft is managed by a small team of three part-time executive directors and two non-executive directors. More detail on their roles and skills is set out on pages 14 and 15. It has no other employees. As you are aware the company's previous chief executive Jonathan Kingerlee retired from the board on 31 July 2013 after 18 years, 12 of these as chief executive. We are very grateful to Jonathan for his loyal service and for his contribution to the group. We welcomed Simon Gill to the board on 1 April 2013. He brings with him a wealth of experience in the commercial property sector. Simon assumed the role of chief executive upon Jonathan's retirement.

Gender diversity

The board of directors currently comprises one female and four male directors and there are no other employees. The group is committed to diversity and maintains a policy of recruiting the best candidate for every position. The directors are the only employees of the group.

Community and human rights issues

Due to the very small number of employees of the group the directors do not set any strategic targets in this area. The board is however supportive of the country and community in which we operate and has made charitable donations in the year totalling £13,350.

Our strategy

The board reviews its objectives each year and agrees the detailed strategy that it will follow. During 2013 it was agreed that the board would:

- continue to focus on and increase the size of the commercial property portfolio
- continue to reduce the residential property portfolio when opportunities arise
- continue to gradually reduce the proportion of our assets held in equities and to reinvest the net cash in the property portfolio
- seek capital growth opportunities within our property portfolio
- use medium term gearing at a modest level

We manage the business by using key performance indicators which are illustrated in our operating review section.

Our investment portfolios

The commercial property portfolio that we own and manage is valued at £37,935,000, and in addition there is a small residential portfolio valued at £1,480,000, a total of £39,415,000. Our equity investments are valued at £5,227,000. More detail regarding the composition and performance of our portfolios is set out on pages 4 and 5.

Our property portfolio is focused primarily on good locations in the south-east of England and comprises a mixture of warehousing, retail, office, leisure and residential. We believe that our spread of investments and their specific attributes enable us to secure solid rental and capital returns for our shareholders. We invest in relatively high quality assets let to good covenants, and actively manage the portfolio to minimise voids and to identify market opportunities. Our current strategy encompasses the identification of target properties in the potentially very attractive market that sits between private investors and larger corporate property investors.

We keep the composition of our portfolios under regular review and we aim to gradually change the shape of the company's property portfolio to enhance yields, improve the portfolio balance and increase the average lot size.

During 2013 the board sought to enhance shareholder returns further through an introduction of a modest level of gearing. We would consider further limited gearing in the future. Our current gearing is 10% of the property portfolio (8% of total assets).

Our equity portfolio is spread across 29 holdings, covering a range of sectors and geographical markets, with a bias towards the UK. No individual holding represents more than 10% of this portfolio. Our strategy is to move towards Highcroft becoming a pure REIT by divesting, over a number of years, from our equity portfolio. We believe that this should improve yield and group profitability. The net cash that is released will be reinvested into the property portfolio in line with our strategy to provide enhanced returns to our shareholders.

Our returns to shareholders

Highcroft provides value for its shareholders by a combination of dividends and capital growth. The group became a REIT on 1 April 2008 and as such we are required to distribute at least 90% of our tax exempt net property income to our shareholders as a property income dividend. Over the medium term a significant proportion of shareholder return is, therefore, likely to come in the form of dividends. The board has a strategy of providing dividend growth to our shareholders that is in excess of inflation.

Environmental matters

The group operates from a serviced office and is therefore not responsible for the environmental matters and greenhouse gas emissions related thereto. The directors have, during the year, conducted a review of the EPC status of the property portfolio. It is intended to include appropriate improvements within our ongoing strategic plan.

Strategic report – investments overview

Group statement

Our investments have performed well. Our net assets have grown by 8% in the year to £42,428,000. This is primarily due to a rise in our total investment portfolios (net of debt) of 9% to £40,642,000.

Highcroft year end share price

720p
2013

590p
2012

465p
2011

495p
2010

445p
2009

305p
2008

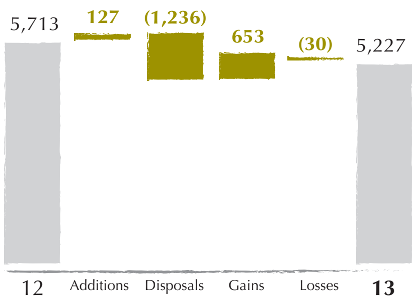
Equity investments

Equity portfolio value

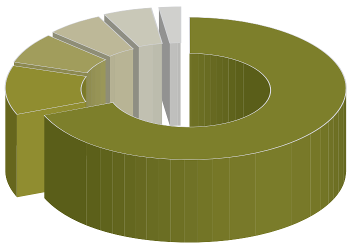
£5.227m ↓

2012 £5.713m

Equity portfolio value (£'000)

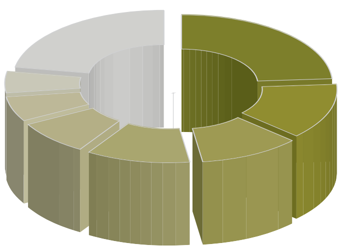


Geographic split



- England 69%
- Australia 11%
- Canada 7%
- Netherlands 6%
- USA 5%
- Other markets 2%

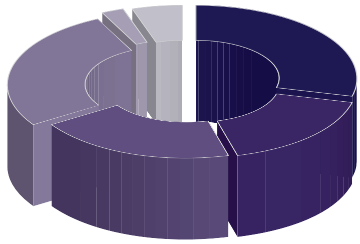
Split by sector



- Banks 24%
- Pharmaceuticals & Biotechnology 13%
- Oil & Gas 11%
- Mobile Telecommunications 11%
- Beverages 8%
- Food Producers 6%
- Mining 5%
- Other 22%

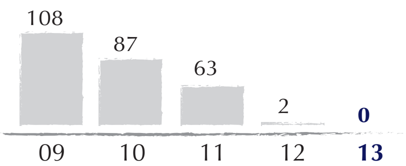
Property investments

Split by sector

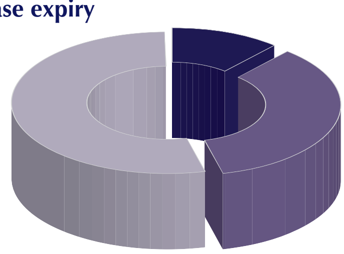


- Retail 29%
- Office 17%
- Retail Warehouse 15%
- Warehouse 33%
- Leisure 2%
- Residential 4%

Cost of voids (£'000)

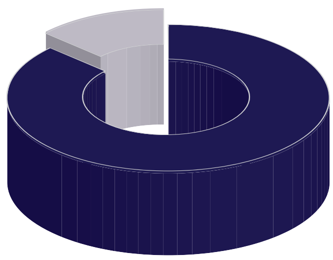


Lease expiry



- Within 1 year 11%
- 1 to 5 years 33%
- > 5 years 56%

Tenure



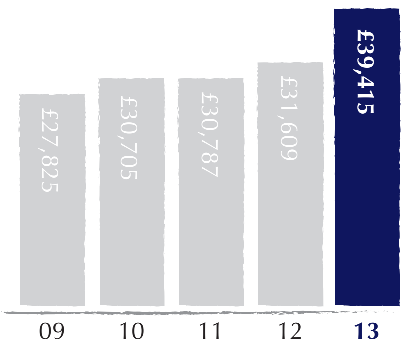
- Freehold 87%
- Long Leasehold 13%

Property investments

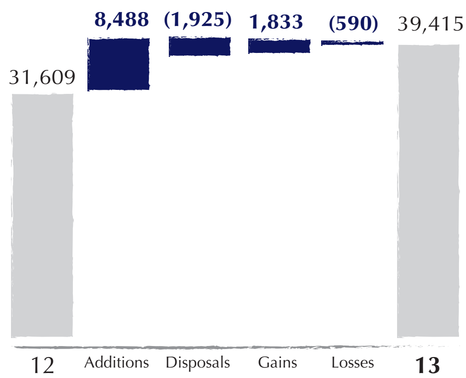
Investment properties
– at annual valuation

£39.415m↑

2012 £31,609m



Property portfolio value (£'000)



Commercial	**£'000**
1. Retail warehouse in Bicester let to Wickes	6,000
2. Retail units in Oxford let to Jigsaw	3,650
3. Warehouse in Milton Keynes let to Ikea	2,925
4. Radio station and office building in Oxford let to the BBC	2,800
5. Warehouse in Andover let to Jewsons	2,650
6. Distribution centre in Kidlington, Oxfordshire let to Parcelforce	2,400
7. Office building in Cardiff let to Arriva Trains	2,350
8. Warehouse in Bedford let to Booker	2,125
9. Multi-let office building in central Bristol	1,500
10. Multi-let retail units in Cirencester, with residential above	1,475
11. Industrial unit in Warwick let to Nationwide Crash Repair	1,425
12. Multi-let retail units in Staines, with offices above	1,400
13. Retail unit in Leamington Spa let to Thorntons	1,375
14. Distribution centre in Southampton let to Metabo	1,300
15. Retail unit in Oxford let to Britannia Building Society	1,200
16. Retail unit in Norwich let to Austin Reed	1,000
17. Licensed leisure and retail property in Warrington let to Wetherspoons and Cash Converters	950
18. Retail unit in Beckenham let to Superdrug	800
19. Retail unit in Kingston let to Kaleido	610
Total commercial	**37,935**
Residential properties	**1,480**
Total	**39,415**

Strategic report – operating review

"Highcroft has had a busy and successful year – increased property activity, a rebalancing of our investment portfolios and increased returns to shareholders, all set against a challenging investment market backdrop"

Simon Gill
Chief executive

View more information online at: **www.highcroftplc.com**

As the graphs on page 1 show, the key performance indicators of the group including gross property income, net asset value per share and dividends payable have all improved in the year.

Overall financial performance

Since 2009 (our first full accounting year as a REIT) our dividends have risen by a total of 30% – a compound annual increase of 6.8%. In the same period our net assets per share have increased by 23% from £6.66 per share to £8.21 per share and our share price by 62% from £4.45 to £7.20 per share. The latter statistic is illustrative of the combination of our increasing asset value and the fact that many companies in our sector are now trading at a much lower discount to net assets than has historically been the case.

We set out below a more detailed commentary on the key areas of our business.

Investments

In line with our strategy we continue to:

- focus on the commercial property portfolio;
- reduce the residential portfolio when opportunities arise; and
- reduce the proportion of our total investments held as equities.

During the year the group released £1,175,000 net (of tax) cash from the equity portfolio and reinvested this, together with existing cash and £4,000,000 of new medium term debt, into the commercial property portfolio in two separate acquisitions. The group completed two commercial property disposals realising £2,340,000 of net cash on 30 December 2013, and is currently reviewing target investment opportunities.

The allocation of our total investments can be summarised as:

	2013 %	2012 %	2011 %	2010 %	2009 %
Commercial property	**85**	82	82	78	72
Residential property	**3**	3	3	7	7
Equity investments	**12**	15	15	15	21
Total	**100**	100	100	100	100

Property portfolio

2013 witnessed strong activity in the property investment market with too much money chasing too few deals, and with the emphasis on investment in the south-east. Later in the year this changed when investors widened their area of search with new found confidence in the provinces. Well-let, long-term income properties continued to be the most sought after investments resulting in keen prices being paid. The directors pay particular attention to the changing activity in the property market in order that they can take advantage of market opportunities.

Property acquisitions

In July 2013 a retail warehouse property in Bicester was bought, against severe competition, for £5,998,000 including costs. It is let to the excellent covenant of Wickes Building Supplies Limited with a further 16.75 years remaining on the lease, and has the benefit of five yearly rent reviews. With major plans for the expansion of Bicester town, it is expected that there should be good rental growth for such properties.

In November 2013 we also acquired, for £2,490,000 including costs, a modern office investment in Cardiff let to Arriva Trains Limited which produces an attractive current yield of 13.02%. This is located adjacent to Cardiff mainline train station and in an area occupied by other large modern offices let to covenants including The AA, British Gas, Lloyds Bank plc, Eversheds, and Zurich. This area is earmarked for further development and benefits from being located close to Cardiff city centre.

We believe that our reputation in the market regarding our ability to perform on purchase transactions is very good, and we consider this to be an important factor in securing attractive opportunities.

Property disposals

During 2013 the directors identified that there was strong demand from private investors for well-let commercial property investments principally in the up to £1 million range. This led to a decision to sell two of our smaller assets at auction which produced excellent results, one property being one of the best selling auction lots in the 2013 auction calendar. The intention is to reinvest these funds into a mixture of secure income assets and assets which offer the opportunity for further enhancement thus providing both capital and income growth. The results are set out in the boxes overleaf.

Since the year end the group has sold one vacant residential unit.

Summary of property investment activities

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Additions at cost	**8,488**	4,827	2,871	1,558	281
Net proceeds from disposals	**(2,340)**	(4,972)	(2,796)	(355)	–
Net investment in property portfolio	**6,148**	(145)	75	1,203	281

Strategic report – operating review continued

Realised and unrealised property gains

Our valuations are undertaken by Knight Frank LLP as stated in note 8 to the financial statements. The capital performance of our property portfolio can be summarised as follows:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Realised gains on investment property	**415**	1,552	360	108	–
Realised losses on investment property	**–**	–	(82)	(8)	–
	415	1,552	278	100	–
Revaluation gains on investment property	**1,833**	1,769	801	1,735	1,616
Revaluation losses on investment property	**(590)**	(2,355)	(1,072)	(158)	(416)
	1,243	(586)	(271)	1,577	1,200

The realised gains arose from the disposals of our Reigate and Petersfield properties as described on pages 8 and 9. Overall our property portfolio increased in value during the year. The individual losses on revaluation arose primarily from situations where we have short unexpired lease terms. In addition, losses may arise where an acquisition is close to the year end and is valued at net acquisition cost, as in the case of our Cardiff property, where our costs on acquisition show as a loss on revaluation.

Balance of property portfolio

Our aim is to have a balanced portfolio, and to actively manage this balance, depending upon our expectations of future market performance. The property portfolio is split, by valuation, as follows:

	2013 %	2012 %	2011 %	2010 %	2009 %
Retail	**29**	41	39	44	46
Warehouse	**33**	39	28	20	15
Retail warehouse	**15**	–	–	–	–
Office	**17**	13	26	25	27
Leisure	**2**	3	3	3	3
Residential	**4**	4	4	8	9
Total	**100**	100	100	100	100

Property disposal in the year

Petersfield

Relet in 2010 to Barclays Bank PLC for a term of 10 years expiring in 2020	@£65,000 p.a.
June 2013 valuation:	£950,000
December 2013 sale price:	£1,120,000
Net initial yield to purchaser:	5.5%
Excess over June 2013 valuation:	17.9%
Excess over 1994 cost:	£593,000

Property income

The directors monitor the growth in total property income, and the results shown below are indicative of the quality of our portfolio and our ongoing strategy.

The annual growth/(fall) in our property income can be summarised as:

	2013 %	2012 %	2011 %	2010 %	2009 %
Increase/(decrease) in total property income	**16**	10	4	6	(9)

The growth includes the effect of a full year's income from the warehouse unit in Bedford purchased in August 2012 and from our warehouse unit in Milton Keynes purchased in November 2012. In addition two new units were purchased in the year as summarised on page 7 and the income from these has contributed to the growth in the year.

Cost of voids and bad debts

Throughout the year we concentrated on our existing portfolio to ensure income was maintained. During the year we had no void costs and there is only one void in the portfolio, which arose at the year end, being a single floor of the office building in Queen Square, Bristol which in rental terms represents only 1.5% of our total rental income.

Looking forward, there are a small number of leases due for renewal over the next 12 months, principally in the retail sector, which we are addressing with the aim of ensuring continuity of income.

Our historical summary of the cost of voids and bad debts is:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Voids	**–**	2	63	87	108
Bad debts	**–**	–	–	2	26

Property disposal in the year

Reigate

Relet in 2011 to Lloyds Bank plc for a term of 10 years expiring in 2021	@£52,000 p.a.
June 2013 valuation:	£855,000
December 2013 sale price:	£1,250,000
Net initial yield to purchaser:	3.9%
Excess over June 2013 valuation:	46.2%
Excess over 1996 cost:	£838,000

Strategic report – operating review continued

Equity investment portfolio

In 2013 we released £1,175,000 of net cash from our equity portfolio after allowing for acquisition costs of £125,000 for three new holdings.

Capital performance of the equity portfolio

Our portfolio performed well, in line with the general improvement in the market in 2013. In absolute terms it performed better than in any year since 2009 in spite of the fact that £1,175,000 in net cash has been released from the portfolio. Our gains and losses can be summarised as:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Realised gains on equity investments	**179**	79	81	69	263
Realised losses on equity investments	**(33)**	(5)	(24)	(136)	(141)
	146	74	57	(67)	122
Revaluation gains on equity investments	**653**	598	316	649	1,416
Revaluation losses on equity investments	**(30)**	(174)	(563)	(73)	(93)
	623	424	(247)	576	1,323

Income from equity investments

Our income from equity investments has decreased slightly as a result of the reduction in our overall holdings. The income can be summarised as:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Income from equity investments	**234**	251	261	234	292

Financial performance

Financial performance – revenue activities

Gross income for the year ended 31 December 2013 increased 14% to £2,965,000 (2012 £2,602,000).

Analysis of gross income	**2013 £'000**	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Commercial property income	**2,691**	2,308	2,086	1,995	1,877
Residential property income	**40**	43	43	58	66
Gross income from property	**2,731**	2,351	2,129	2,053	1,943
Income from equity investments	**234**	251	261	234	292
Total income	**2,965**	2,602	2,390	2,287	2,235

Underlying commercial property income has risen in 2013 as we had the combined effect of a full year of income from our Booker, Bedford and Ikea, Milton Keynes properties which were purchased in 2012, and half a year of income from our Wickes, Bicester property. The Arriva, Cardiff property that was purchased in late November has only contributed one month's income in 2013, although there is a full year of income from the Reigate and Petersfield properties that were disposed of on 30 December 2013.

Residential property income is generated from four regulated tenancies and two flats above commercial units together with ground rents. This dropped slightly in 2013 as one unit became vacant – this unit has been sold in the period since the year end.

The 2013 income from equity investments has dropped slightly, as a result of the release of cash from the portfolio. The 2011 figure was enhanced by one special dividend of £48,000. After taking this into account, there is an underlying increase in yield year on year. This reflects an improvement in the yields on equity portfolios generally and is also a positive result of the transactions undertaken during the past three years.

Analysis of administrative and net finance expenses	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Directors' remuneration	**188**	156	162	156	139
Auditor's remuneration including other services	**22**	20	21	20	22
Other expenses	**135**	135	152	154	122
Total administrative expenses	**345**	311	335	330	283
Net finance expense/(income)	**54**	(8)	(15)	(9)	18
Total expenses	**399**	303	320	321	301

In 2013 there were four months of parallel running for two directors during a handover period. In addition, the new chief executive has now taken on certain roles that were previously outsourced, and there was again a period of parallel running. Finance costs increased as the group now has £4,000,000 of medium term borrowing (2012 £nil). Notwithstanding these increases, the ongoing running costs of the business remain well controlled.

Summary of profit before tax and income tax credit/(expense) on revenue activities	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Profit before tax	**2,830**	3,667	2,045	1,821	1,681
Income tax credit/(expense)	**91**	53	21	144	(11)
Profit for the year	**2,921**	3,720	2,066	1,965	1,670

The result in 2012 was heavily influenced by the £1,552,000 realised gain on the disposal of our property in Victoria. The realised gains in 2013 were £415,000, and the profit for the year excluding these gains has increased by 16% to £2,506,000 (2012 £2,168,000).

Financial performance – capital activities

A summary of our investments is laid out on pages 4 and 5 and of our capital performance by portfolio on pages 8 and 10.

Financial performance – cash flow

Our cash flow in the year can be summarised as:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Opening cash	**3,274**	1,926	2,472	946	963
Net cash from operating activities	**2,414**	2,397	1,212	1,826	1,295
Investment acquisitions – property	**(8,488)**	(4,827)	(2,871)	(1,558)	(281)
Investment acquisitions – equities	**(125)**	(540)	(423)	(1,028)	(515)
Investment disposals – property	**2,340**	4,972	2,796	355	–
Investment disposals – equities	**1,382**	922	243	3,326	1,845
Dividend paid	**(1,669)**	(1,576)	(1,503)	(1,395)	(1,107)
New medium term loans	**4,000**	–	–	–	(1,254)
Closing cash	**3,128**	3,274	1,926	2,472	946

Of the cash balance at 31 December 2013, £2,340,000 was realised from property disposals on 30 December 2013. It is the directors' intention to reinvest this cash in the commercial property portfolio when suitable opportunities arise.

Summary of financial performance

Our financial performance remains strong. Our key performance indicators have all improved and our cost base remains contained.

We are very pleased with the results for the year and remain optimistic that we start 2014 from a position of strength upon which we hope to build through further attractive acquisitions. We have set ourselves some challenging objectives for 2014 and we hope that our actions will continue to improve shareholder value via increased dividends and asset values.

The risk and risk management report on pages 12 and 13 form part of this strategic report.

On behalf of the board

JSL Hewitt

John Hewitt
Chairman
26 March 2014

Strategic report – risk and risk management

Risks and impacts	How we manage/mitigate the risk
1. Economic climate The ongoing uncertainty in UK and European financial markets continues to frustrate businesses in their expansion plans and ability to secure lines of credit. In addition, changing consumer and business practices, new technology and new legislation may result in some of our buildings being less desirable to new tenants. The impact could be failure of a tenant resulting in bad debts and/or void periods reducing our profit and cash flow in the short term. In addition, there could be a reduction in tenant and investor demand for property, resulting in reduced property valuations and net asset per share values and lessening our ability to secure finance.	We regularly review, with our property and investment advisers, key current and forecast data for the various sectors in which we operate. The group, having taken advice, ensures that its investments are biased towards the south-east of England and in other areas which are considered low risk. The group spreads its investment risk across a number of sectors (retail, office, warehouse, retail warehouse and leisure) and regularly reviews this mix.
2. Failure of a tenant A tenant failure could result in reduced income, increased costs and affect our property valuation in the short term.	We assess, with the aid of our advisers, the financial status and creditworthiness of existing and potential tenants, particularly when a new lease is entered into or a new property acquired. We actively manage our portfolio where we are aware of potential voids arising. The group spreads its exposure across a number of properties and covenants so that the risk associated with the default of an individual tenant is minimised. Rent collections are continually reviewed by our property managers and monitored weekly by the executive directors.
3. REIT status In order to maintain Highcroft's status as a REIT it is necessary to maintain a correct balance of income and assets and fulfil the other REIT criteria otherwise the company will cease to qualify as a REIT, costs will be incurred and shareholder REIT tax treatment withdrawn.	We have further reduced the equity portfolio and ensured that the property portfolio comprises in excess of 75% of the entire investment portfolio. The board monitors compliance with the other ratios regularly.
4. Relationships with advisers and managers The performance of the property portfolio is key to our overall success and the professional advice we receive is critical.	We seek the best advice and work closely with our advisers to review regularly the performance of the portfolio. We review our advisers on an annual basis.
5. Availability and cost of finance If lenders' appetite to finance the real estate sector reduced this may affect our ability to refinance and also reduce investor demand and property valuations. Increased finance costs would reduce our profitability and dividends.	We aim to only assume a moderate level of gearing thus increasing the likelihood of being seen as an attractive banking proposition for lenders. Our preference is for fixed interest, non-amortising debt with a spread of maturity dates.
6. Business strategy It is important that all of the directors are involved with, and are informed of, the business strategy of Highcroft. An inappropriate strategy and/or underperformance against it could reduce the group's profitability and capital value.	Board and executive meetings are held on a regular basis for planning and forecasting for the business.
7. Loss of key personnel This may result in a lack of knowledge, skills and experience.	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff.

Measurement of our exposure	Movement in risk exposure in the period
Our portfolio has performed well in the period. At the start of 2014 there is a void on part of Bristol property but this represents less than 1.5% of our portfolio income.	↓
During 2013 bad debts were nil and we had no voids. Our rent collections have increased to 84% by the quarter day and 99% within one week of the quarter day. Arrears are nominal and are at an historical low. The group has 25 commercial tenants and our five largest tenants by current passing rent provide 45% (2012 43%) of current income.	→
Investments are a smaller percentage of our total assets. The introduction of gearing has introduced another ratio to monitor but the risk of non-compliance is low.	↓
Our advisory teams are experienced with our portfolio and able to add valuable external advice.	↓
Although we have taken on debt in the year, it is all non-amortising, at a fixed interest and secured on properties where the covenant is strong and the lease term extends beyond the loan terms. A number of lenders expressed interest in lending to the group.	→
All of our objectives set out at the end of 2012 were achieved by the end of 2013.	→
Upon the resignation of the chief executive we were able to recruit a successor in a timely manner to enable an appropriate handover.	→

Board of directors

"We consider that the board of directors has an appropriate balance of skills, knowledge and experience to ensure that it remains able to discharge its duties and responsibilites effectively"

John Hewitt
Non-executive chairman

Appointment to the board
John joined the group as an independent non-executive director in August 1999 and was appointed as non-executive chairman in October 2006.

Committee membership
Chairman of the nomination committee and member of the remuneration and audit committees.

Other appointments
John is an adviser to Wadham College and a trustee of the Oxfordshire Association for the Blind.

Previous experience/ brings to the board
John worked in the City of London in stockbroking for over 20 years where he ultimately became managing director of Scrimgeour Vickers. He was, until recently, campaign adviser for Wadham College Oxford and has advised a number of other local and international businesses and organisations. John's long term, in-depth working knowledge of the City provides to the board valuable advice and opinion and his numerous other activities give a widespread business view on all of the company's activities.

Richard Stansfield
Non-executive director

Appointment to the board
Richard joined the group as an independent non-executive director in December 2002.

Committee membership
Chairman of the remuneration and audit committees and member of the nomination committee.

Other appointments
Richard is currently Property Director of Jesus College Oxford, responsible for a fund of commercial, residential and rural properties located in England and Wales.

Previous experience/ brings to the board
Richard is a chartered surveyor and formerly a director of Savills commercial department based in Oxford where he advised a number of institutional clients on their commercial property portfolios throughout the UK. His professional knowledge of all aspects of property and property portfolio management is of great benefit to the directors. He assists in assessing the needs of the existing portfolio and in evaluating any potential new acquisitions and our property strategy. His contacts throughout the property market have proved invaluable to the board.

David Kingerlee
Executive director

Appointment to the board
David joined the group as an executive director in September 1996.

Committee membership
Executive committee.

Other appointments
David is an executive director of each of the Kingerlee group of companies which trade in the construction and property development sectors. He is also chairman of Kingerlee Limited and company secretary of Kingerlee Holdings Limited.

Previous experience/ brings to the board
David's long term involvement and knowledge of the company provides a solid bedrock to the management of the business. His technical skills and attention to detail are invaluable in the day-to-day running of the portfolio and our internal IT systems. His other business activities provide the directors with practical solutions and opinion to any property issues.

Simon Gill
Chief executive

Appointment to the board
Simon joined the group as property director in April 2013 and also assumed the role of chief executive in August 2013.

Committee membership
Simon chairs the executive committee.

Other appointments
Simon runs his own property investment and development business.

Previous experience/ brings to the board
Simon is a chartered surveyor who started his property career in one of the major London practices, subsequently becoming a partner in Allsop & Co, before setting up his own advisory practice in 1988. Later he took on the role of principal by setting up various joint ventures and becoming an asset manager to one of Close Brothers' private equity funds. Simon's long term involvement and experience in the property market in his various positions mean that opportunities for the board are assessed on a quick and efficient basis so that the correct decisions are reached at an early stage.

Roberta Miles
Finance director & company secretary

Appointment to the board
Roberta joined the group in April 2010 and was appointed to the board as finance director and company secretary in June 2010.

Committee membership
Executive committee.

Other appointments
Roberta acts as company secretary or chief financial officer for a number of companies. She is currently a director of both MCD Ventures Limited and Microbial Solutions Limited.

Previous experience/ brings to the board
Roberta qualified as a chartered accountant in 1988 and after leaving the profession in 1996 has maintained a portfolio of part-time, executive, board level roles in a variety of businesses at various stages of their lifecycle. Her acute attention to detail, financial acumen and business expertise are a most valuable asset to the board and her lively and positive approach to all matters is something that all boardrooms should possess. The board benefits greatly from the experience of her varied executive roles.

Corporate Governance – Chairman's introduction

"All members of the board support the principles of good corporate governance"

Welcome to the newly enhanced corporate governance section of the group's annual report. Whilst Highcroft is a relatively small, premium listed group, good corporate governance is one of our values. We strive to follow the appropriate guidance and rules insofar as they are practicable for a business of our size and lack of complexity. We believe that good corporate governance helps to ensure proper oversight by the board and that we are taking the most appropriate actions in order to achieve our strategy.

We have clear approval procedures and protocols in place and all our property and equity capital transactions are approved in accordance with these. The board carries out a regular review of its protocols, and in 2013 the property acquisition protocol was reviewed following the appointment of our new property director.

Our strategy is set out on page 3. The board supports this strategy and ensures that any matters that it approves are in line with this strategy.

The board recognises the importance of staying up to date with the ever evolving corporate governance framework that we operate within, and in adopting the spirit of all the recommendations. The board has, with only two exceptions, that are reported below, adopted all the key recommendations.

Audit committee meetings are attended, by invitation, by the finance director and other executives may be invited to attend from time to time. The committee regularly meets the external auditor without management being present.

We recognise the importance of shareholder communication and its place within a sound governance framework. We hope that the reformatting of this annual report together with the additional detail that we have provided will enable shareholders to understand more clearly our strategy, objectives and performance during the year. The chief executive and I have both met representatives of our key shareholders during the year. We look forward to welcoming many of our shareholders to our annual general meeting.

This governance report on pages 14 to 28 highlights our compliance with the UK Corporate Governance Code (the Code) during the year and explains governance structure. All members of the Board support the principles of good corporate governance and believe that we comply with them insofar as is appropriate.

JS Hewitt

John Hewitt
Non-executive chairman

Corporate Governance

Governance structure

The board has three subcommittees composed of its non-executive directors and a management committee consisting of the executive directors. All directors receive an induction on joining the board and there is an annual review of skills and knowledge and any necessary training is identified and undertaken.

The chairman

The chairman is responsible for the leadership of the board and for ensuring its effectiveness. He sets the agenda for meetings and ensures that adequate, accurate, clear information is circulated in a timely manner, that all matters are discussed properly and promotes a culture that encourages constructive, open debate on all key issues.

Non-executive directors

The non-executive directors are deemed to be independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. Both non-executive directors have served on the board for more than nine years. However, this potential risk indicator (of a lack of independence) is considered less relevant for Highcroft as its business model and strategy is one of long term growth of shareholder return. They help facilitate the strategic decision-making process and the monitoring of the performance of the executive management in achieving the agreed strategy and objectives. Drawing on their extensive experience and knowledge, they act as both a sounding board and an objective, constructive challenger to the executive board.

The senior non-executive director is Richard Stansfield.

Board committees

Executive committee

This committee is composed of the executive directors and chaired by the chief executive. It is responsible for the implementation of strategy and policies, and the day-to-day decision making and administration of the group.

Audit committee

This committee is composed of the non-executive directors and is chaired by Richard Stansfield.

Remuneration committee

This committee is composed of the non-executive directors and is chaired by Richard Stansfield.

Nomination committee

This committee is composed of the non-executive directors and is chaired by John Hewitt.

The key roles and responsibilities of the audit, remuneration and nomination committees are set out in the reports on pages 19 to 25.

Corporate governance continued

Board/Committee meetings and participation during 2013

	Board	Audit	Remuneration	Nomination
Number of Meetings	6	3	3	2
John Hewitt	6	3	3	2
Richard Stansfield	6	3	3	2
Simon Gill (appointed 31 July 2013)	4*	n/a	n/a	n/a
Jonathan Kingerlee (resigned 31 July 2013)	3	n/a	n/a	n/a
Roberta Miles	6	3 (part)	n/a	n/a
David Kingerlee	6	n/a	n/a	n/a

* One attended as an observer.

Compliance with the UK Corporate Governance Code (the Code)

The company has applied the principles of good governance contained in the Code, a copy of which is available at www.frc.org.uk, except as disclosed below.

Performance related remuneration

The company has not made performance related payments to directors, which is not in accordance with Code provision D1.1. The remuneration committee and board believe that the directors do not necessarily need to have performance related payments in order to be motivated to give their best in serving the interests of shareholders. As noted in the directors' remuneration report on pages 22 to 25 the committee is reviewing this issue with a view to aligning the interests of all of the executive directors more closely with those of the shareholders.

Composition of the audit committee

The audit committee does not have a member with recent and relevant financial experience which is not in accordance with Code provision C3.1. The audit committee and board believe that given the size of the group and the lack of complexity of the group's financial and reporting requirements it is more appropriate to contract in this particular skill-set where a particular need is identified.

The audit committee will continue to review these non-compliances as part of its annual compliance review to ensure that no further actions are required.

Board effectiveness

The board meets at least six times a year and has a schedule of matters specifically reserved for its decision including approval of: strategy, all capital transactions, issue of shares, shareholder documents, stock exchange announcements, dividends, board membership and remuneration and related party transactions. It also approves the terms of reference of all subcommittees. An annual board evaluation is carried out.

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.

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. In 2013 the board conducted a self-performance evaluation by way of a questionnaire designed to assess the strength of the board, its committees and to identify areas for improvement. This process was led by the chairman and the results were discussed by the board. The board considered itself to be generally effective in all the key areas identified in the questionnaire. These areas included; contribution to results and achievement of strategic objectives, management controls and risk, operating styles and methods and shareholder relationships.

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 chairman and other directors are available to meet shareholders if required. The AGM provides a forum, both formal and informal, for shareholders to meet and discuss relevant matters with all the directors. Documents are sent to shareholders at least 20 working days before the meeting. 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 and the directors' remuneration report. 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 are posted on the company's website after the meeting. The company has no institutional shareholders but has commenced a programme of meetings with key shareholders, subject to regulatory constraints, and the board is provided with feedback from these meetings.

Shareholders who wish to communicate with the board should contact the company secretary in the first instance via our website www.highcroftplc.com.

Report of the audit committee

“The committee’s key objectives are the provision of effective governance over the group’s reporting, the performance of the external auditor and the management of the group’s system of risk management and internal control”

Welcome to the report of the audit committee. We set out below a summary of our main responsibilities and key activities during the year. As a committee we are responsible for monitoring the integrity of the group’s reporting, and in continuing to develop and maintain a sound system of risk management and internal control.

Composition of the committee

The committee consists of Richard Stansfield as chairman and John Hewitt our non-executive chairman. It does not include a member who has recent and relevant financial experience but, in situations where these skills are considered necessary, the committee will appoint advisers to assist them. The committee meets regularly during the year, in line with the financial reporting timetable and in 2013 met three times. Roberta Miles, as finance director, attends part of each meeting and the external auditor attends all meetings. The committee has an agenda item at each meeting to discuss business without any executive directors being present.

Activities of the committee

Financial reporting. The committee considers all significant issues in relation to the financial statements, which in 2013 continue to be the valuation of our property and investment portfolios and the changing financial reporting requirements. It considers the valuation process and valuation reports, and then also reviews, and if necessary challenges, key judgements and assumptions. In 2013, the committee paid particular attention to the comparable evidence that was cited by the valuer to ensure that it provided an appropriate base from which to draw conclusions regarding our portfolio. The committee also ensures that the external auditor has full access to the valuer and attends the presentation given by the valuer after the year end. The group has a fixed fee arrangement with the valuer in line with best practice. The changing financial reporting requirements were discussed in detail with the auditor and the committee have been involved during the drafting process of the 2013 report to ensure that the resource is available to make the necessary enhancements to our annual report and accounts. It also considers the results of the auditor’s work, the interim and annual reports prior to their publication, the application of the company’s accounting policies and the detail of any changes to the financial reporting requirements. In 2013 the committee assumed the additional responsibility of considering whether the annual report and accounts, taken as a whole, are fair, balanced and understandable. The committee ensures that 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 28, and that of the auditor on pages 29 and 47.

External auditor. The audit committee reviews the terms of engagement with the external auditor and ensures that the external auditor is independent. It has received and reviewed written disclosures from the auditor regarding independence. The auditor does not provide consultancy services to the group although it may provide additional advice, from time to time, related to financial reporting. The audit committee has referenced audit fees with similar auditors and decides how frequently the audit should be put out to tender. The last tender was over 10 years ago and the audit committee will reconsider this issue during 2014. The audit committee reviews the

Report of the audit committee continued

appointment of the external auditor on an annual basis, reviews their objectivity and effectiveness, and makes a recommendation to the board for their reappointment to be approved at the AGM. The audit committee reviews the terms, areas of responsibility and scope of the audit as set out in the external auditors engagement letter, the overall work plan for the forthcoming year, together with the associated fee proposal and cost effectiveness of the audit, the results of the audit including major issues arising, if any, and their resolution. It also reviews key accounting and auditing judgements, any errors identified during the audit, the recommendations made to the management by the auditor and the management's response. It also forms a view on the auditors overall performance. The audit committee ensures that the audit partner is rotated from time-to-time in accordance with legislation. It also monitors the level of non-audit services undertaken by the auditor to ensure that their objectivity and independence is not compromised or impaired.

Risk management and internal controls. The board is responsible for an ongoing process to identify, evaluate and manage the risks facing the business, establishing and maintaining a sound system of internal control and for reviewing its effectiveness. The audit committee is responsible for overseeing the effectiveness of the risk management and internal control systems. 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.

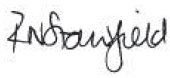
The key procedures, which exist to provide effective internal control, are as follows:

- 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 forecast
- financial controls and procedures
- clear guidelines for capital expenditure and disposals, including defined levels of authority
- meetings of the executive directors on a regular basis to authorise share purchases and sales
- an audit committee, which approves audit plans and published financial information and reviews reports from the external auditor arising from the audit and deals with significant control matters raised
- regular board meetings to monitor areas of concern
- annual review of risks and internal controls
- annual review of compliance with the Code.

More detail regarding our management of risk within our strategic framework is set out on pages 12 and 13.

Internal audit. 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 audit committee reports on each of its meetings at the next board meeting.



Richard Stansfield
Chairman of the audit committee

Report of the nomination committee

> During 2013 our key activity was the appointment of Simon Gill as our new property director and chief executive

Welcome to the report of the nomination committee. We set out below a summary of our main responsibilities and key activities during the year.

Composition of the committee

The committee consists of the non-executive directors John Hewitt and Richard Stansfield. It is chaired by the chairman of the board John Hewitt unless the committee is dealing with the successor to the chairmanship. In such a case the committee would be chaired by another non-executive director and may involve an external consultant. The key objective of the committee 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. It is responsible for recommending board and board committee membership changes to the board, for board succession planning and for identifying suitable candidates for board vacancies to be nominated for board approval.

Activities of the committee

During the year our key activity was to identify a suitable candidate to succeed Jonathan Kingerlee as chief executive. The committee drew up its selection criteria including; experience of the property investment market in England and Wales, ability to manage advisers and agents, ability to work as part of a very small team, in a hands-on manner, to draw up and deliver a strategic plan that achieves the company's strategic objectives. It then consulted with external advisers and contacts, and drew up a long list of 11 candidates of whom four were shortlisted. The advisers and contacts included experienced professionals who understood Highcroft's business but were independent of any individual whose name they put forward.

The committee did consider using headhunters but, given the size and nature of the group, the cost of such an exercise was considered to be inappropriate in this circumstance. It also took up references to assist with the selection process. Both male and female candidates were considered.

The nomination committee recommended that Simon Gill be appointed as property director and chief executive designate and that he succeed Jonathan Kingerlee when he stood down as chief executive. Simon's skills and experience were judged to be a good fit to the identified requirements of the group. In addition he was judged to have sufficient time available to discharge the requirements of the role. The board accepted this recommendation and Simon Gill was appointed a director on 1 April 2013 and as chief executive on 31 July 2013. No fees were paid in relation to this appointment process.

JSL Hewitt

John Hewitt
Chairman of the nomination committee

Governance

Directors' remuneration report

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). Ordinary resolutions for the approval of this report and the directors' remuneration policy will be put to the members at the forthcoming annual general meeting.

The law requires the group's auditor, Grant Thornton UK LLP, to report on whether the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the independent auditor's reports on pages 29 to 30 and page 47.

The annual statement

It is my pleasure to introduce this year's remuneration report – our first under the new Regulations.

Membership of the committee

My fellow member of the committee is John Hewitt. We are both non-executive directors and are considered by the board to be entirely independent. Neither of the committee members has any potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

Remuneration philosophy

The board's stated objective is to enhance shareholder value through a combination of increasing asset value, increasing profits and increasing dividends. In order to achieve this objective the board must focus its efforts on the strategic priorities that it believes will maximise the likelihood of success. The remuneration committee is therefore giving consideration to aligning the interests of all of the executive directors more closely with those of the shareholders. In time it is expected that the executive directors' remuneration packages will contain at least one element that is performance related.

The committee welcomes engagement with shareholders and welcomes feedback on the form and content of this report.

Major decisions made during the year

During the year the remuneration committee met to:

- review the level of directors' fees for 2013 and concluded that, having regard for the amount and quality of work that the directors were required to undertake, and some altered responsibilities it was appropriate to increase certain of the salaries by between 4% and 7%
- agree the salary package for the new chief executive. The committee considered the compensation package that would be required to attract and retain a candidate of an appropriate calibre and that was competitive in the marketplace. The agreed package consisted of a base salary of £50,000pa in the first year with a review at the end of that period. It was also agreed that the committee would work towards defining and agreeing an incentive package for the executive directors
- review the level of directors' fees for 2014 and concluded that, having regard for the amount and quality of work that the directors were required to undertake, it was appropriate to increase the salaries for 2014, in line with the All Items Retail Prices Index, which at October 2013 was 2.8%.

Remuneration policy

The board's policy is that the remuneration of all directors should reflect their experience and expertise and the particular value that they add to the group. In addition the packages should be sufficient to attract and retain individuals of an appropriate calibre and capability, and should reflect the duties and responsibilities of the directors and the value and amount of time committed to the group's affairs. The packages should be gradually aligned more closely with our remuneration philosophy by introducing at least one element of performance related pay.

Remuneration policy continued

The remuneration packages of all directors are reviewed annually and include four elements:

Base salary. It is intended that the base salaries will be reviewed and benchmarked annually. Incremental increases will be made in line with inflation. In addition, if there are increases due to benchmarks, role changes or other factors, these will be explained in the annual report. Where an element of the salary is related to the time commitment, as in the case of Roberta Miles, any additional payments will be explained.

Benefits. No benefits are currently payable.

Pensions. No pensions are currently payable. The auto enrolment date is 1 April 2016 and it is proposed that an appropriate scheme will be in place by 1 January 2016 and that a minimum level of company contribution of 1% will be payable from then. This contribution level will rise in line with the regulatory requirements.

Performance related pay. There is currently no incentive plan in place for the executive directors. It is intended that a plan will be introduced in 2014 whereby a bonus is available for superior performance. The cap on the bonus will be 10% of distributions paid to shareholders in the year.

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

This policy will be put to the shareholders for approval at the forthcoming annual general meeting. In accordance with the Regulations, an ordinary resolution to approve the directors' remuneration policy will be put to shareholders at least once every three years.

Components of total reward

During the year the directors were only entitled to a base salary. They are not currently eligible to receive pension entitlements, or any other benefits. Consideration is being given to introducing a bonus scheme in the future.

The directors are not entitled to participate in any long term incentive plan or share option scheme. All salaries are paid on a monthly basis and are not performance related. Roberta Miles' contract includes a clause that enables her to be paid additional salary for days worked above a fixed level. There are no provisions for compensation payments on termination.

Directors' service contracts

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. Non-executive directors have a formal appointment document for a period of up to three years subject, at any time, to termination on six months' notice by either party. No director may serve beyond their 70th birthday. All directors retire and are subject to election at the first annual general meeting after their appointment. Thereafter, one-third (or the nearest number thereto) of directors retire by rotation at each annual general meeting. In accordance with the Code, non-executive directors must retire and may offer themselves for re-election annually once they have served nine or more years on the board. Both John Hewitt and Richard Stansfield have served for more than nine years and their re-election is proposed at each annual general meeting.

A summary of the contracts is set out below:

Non-executive directors	Date of appointment as director	Date of current appointment letter	Expiry of term
John Hewitt*	1 August 1999	30 June 2013	12 November 2015
Richard Stansfield*	1 December 2002	1 July 2011	30 June 2014
Executive directors	**Date of appointment as director**	**Date of contract**	**Notice period**
Simon Gill*	1 April 2013	1 April 2013	Six months
David Kingerlee†	12 September 1996	1 July 2012	Six months
Roberta Miles*	1 July 2010	1 July 2010	Six months

* Due date for re-election 2014 annual general meeting.

† Due date for re-election 2015 annual general meeting.

Directors' remuneration report continued

Annual remuneration report

Relative importance of spend on pay

The directors are the only employees of the group.

	2013 £'000	2012 £'000	2011 £'000
Directors' remuneration	**171**	141	149
Distributions paid to shareholders	**1,669**	1,576	1,503
Directors' remuneration as a percentage of distributions paid to shareholders	**10.2%**	8.9%	9.9%

Remuneration of directors undertaking the role of CEO

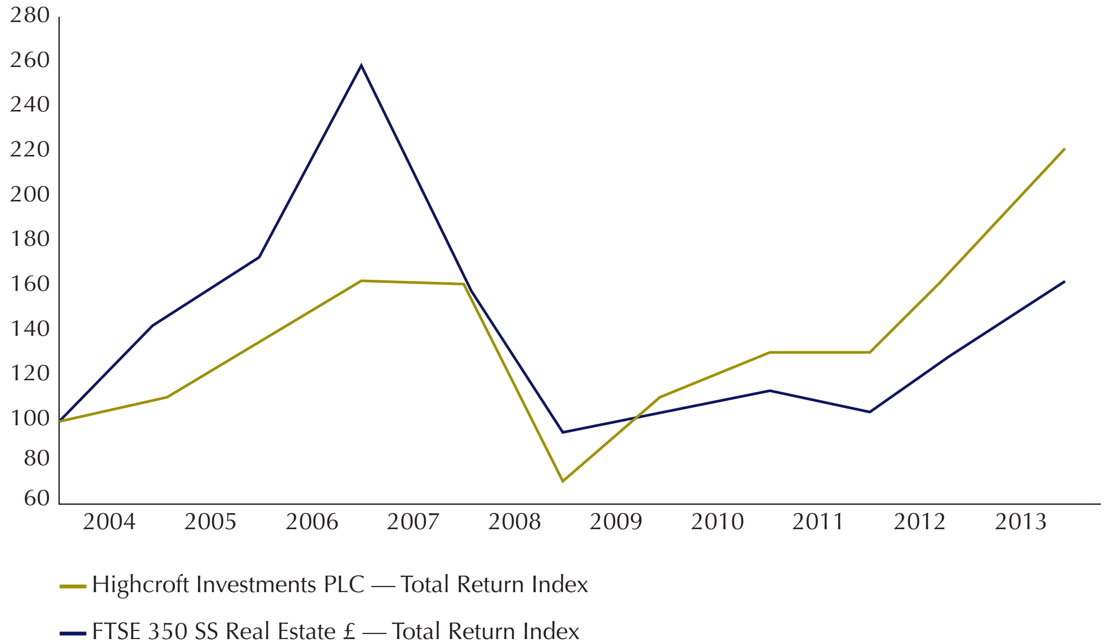
The table below shows the remuneration of Jonathan Kingerlee (until 31 July 2013) and Simon Gill (from 31 July 2013) in respect of their role as chief executive (CEO).

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Jonathan Kingerlee	**20**	35	35	34	34
Simon Gill	**21**	–	–	–	–
	41	35	35	34	34
Percentage change in total remuneration of CEO	**17%**	–	3%	–	(8%)

Company performance

The Board is responsible for the company's performance. The graph below shows the company's Total Shareholder Return (TSR) compared to the FTSE 350 Super Sector Real Estate Index over the last ten years which the board considers to be the most appropriate benchmark. TSR is defined as share price growth plus reinvested dividends.

TSR performance graph



Source: Thomson Reuters Datastream

Directors' remuneration (audited)

	2013 £	2012 £
John Hewitt	**15,292**	13,500
Richard Stansfield	**15,750**	14,000
Jonathan Kingerlee (resigned 31 July 2013)	**20,271**	34,750
David Kingerlee	**22,500**	21,000
Roberta Miles	**59,427**	52,800
Simon Gill (appointed 1 April 2013)	**37,500**	–
Christopher Clark (resigned 31 May 2012)	**–**	5,417
	170,740	141,467

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. During the year there was a handover period of four months between Jonathan Kingerlee and Simon Gill and, in addition, certain previously outsourced roles were brought in-house.

The increase in Roberta Miles' remuneration reflects an additional time commitment required in the handover period, during the property transactions and in some initial work on the enhanced reporting requirements.

Interests of the directors in the shares of the company (audited)

The beneficial and other interests of the directors, and their families, in the shares of the company at 1 January 2013 and at 31 December 2013 were as follows:

	31 December 2013		1 January 2013	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
John Hewitt	**15,985**	**–**	10,485	–
Simon Gill (appointed 1 April 2013)	**–**	**–**	–	–
Richard Stansfield	**–**	**–**	–	–
Jonathan Kingerlee (resigned 31 July 2013)	**n/a**	**n/a**	130,986	–
Roberta Miles	**2,250**	**–**	–	–
David 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.

There have been no changes in the holdings between 1 January 2014 and 26 March 2014.

Approved by the board of directors and signed by

Richard Stansfield
Chairman of the remuneration committee
26 March 2014

Report of the directors

The corporate governance report on pages 16 to 25 forms part of the report of the directors.

Directors

The directors listed on pages 14 and 15 constituted the board during the year other than Jonathan Kingerlee who served until his resignation on 31 July 2013. Simon Gill was appointed a director on 1 April 2013, and assumed the role of chief executive on 31 July 2013. The interests of the directors in the shares of the company are included in the remuneration report on page 25.

In accordance with the company's articles of association Simon Gill and Roberta Miles retire by rotation and, being eligible, offer themselves for re-election. In addition, John Hewitt and Richard Stansfield, having both served more than nine years on the board, submit themselves for re-election.

The board confirms that following performance evaluations, the performance of each director seeking re-election continues to be effective, that they demonstrate commitment to their role and that the non-executive directors are independent. The board believes that it is in the best interest of shareholders that these directors be re-elected.

Structure of share capital and rights and obligations attaching to shares

The company's allotted and issued share capital as at 31 December 2013 was £1,291,810 divided into 5,167,240 ordinary shares of 25 pence each, each of which was 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 a special 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 or by proxy 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, in the case of certificated shares, rights in respect of share certificates and share transfers

Every person whose name is entered as a member in the register as the holder of any certificated share 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.

Substantial shareholders

As at 26 March 2014 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	20.38%	1,053,067	–
The wholly owned subsidiaries of Kingerlee Holdings Limited, total 25.50%:			–
Kingerlee Limited	9.97%	515,000	–
Kingerlee Homes Limited	7.70%	397,673	–
T H Kingerlee & Sons Limited	7.83%	404,674	–

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. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. Cash flow forecasts are prepared annually as part of the planning and budgeting process and are monitored and reworked regularly.

The group has secured fixed term non-amortising borrowing this year and has additional headroom available. The directors monitor the compliance with the loan covenants on a monthly basis. The group does not currently have an overdraft facility. 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.

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. During the year we have obtained EPCs for most of our portfolio and are taking these results into account when planning any required works.

Greenhouse gas emissions

The group operates from a fully serviced office and is not responsible for the environmental matters, including emissions, related to the building.

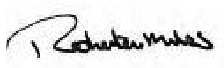
Policy on the payment of suppliers

The group and company normally agree payment terms with suppliers as part of the establishment of a contract. It is the group's and company'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 2013 when average creditor days were 30 (2012 30).

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 16 May 2014.

This report was approved by the board on 26 March 2014.



R Miles
Company secretary
26 March 2014

Statement of directors' responsibilities

Statement of directors' responsibilities in respect of the annual report and the financial statements

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 and the remuneration report 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
- the directors have taken 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 this information.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website www.highcroftplc.com. Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union for the group and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) for the parent company, 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 annual 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; and
- the report and accounts, taken as a whole, are fair, balanced, and understandable and provide the necessary information for shareholders to assess the group's performance, business model and strategy.

On behalf of the board

JSL Hewitt

John Hewitt
Chairman
26 March 2014

Independent auditor's report to the members of Highcroft Investments PLC

We have audited the group financial statements of Highcroft Investments PLC for year ended 31 December 2013 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 and the notes to the consolidated financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the group 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 group 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 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 Financial Reporting Council's website at www.frc.uk/apb/scope/private.cfm.

Auditor commentary

An overview of the scope of our audit.

Our audit approach was based on a thorough understanding of the group's business and is risk-based.

The group is structured along two business lines being Highcroft Investments Limited and its wholly owned subsidiary, Rodenhurst Estates Limited. The group has a large portfolio of property and equity investments. The day-to-day management of the group's investment portfolio is outsourced to third-party service providers, and the year-end valuation of properties is determined by external valuers.

Our audit scope included a full audit of the group financial statements of the parent company, Highcroft Investments PLC and the financial information of the subsidiary Rodenhurst Estates Limited. We obtained an understanding of the nature and significance of the services provided by the third-party service provider, including the effect on the group's internal controls. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the group financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission.

For the group audit, we established materiality for the group financial statements as a whole to be £241,000, which is 0.5% of the group's total assets. For the consolidated statement of comprehensive income we determined that misstatements of lesser amounts than materiality for the financial statements as a whole would make it probable that the judgements of a reasonable person, relying on the information would have been changed or influenced by the misstatements or omission. Accordingly, we established materiality for the consolidated statement of comprehensive income to be £142,000.

For financial information of Rodenhurst Estates Limited we set our materiality based on a proportion of group materiality appropriate to the relative scale of business.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the group financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Investment property valuation

The group has a significant property portfolio classified as investment property for financial reporting purposes in accordance with IAS 40 Investment Property. Measurement of investment property values includes significant assumptions and judgements. We therefore identified the fair value of investment properties as a significant risk requiring special audit consideration.

Independent auditor's report continued

Our audit work included, but was not restricted to, obtaining an understanding of internal controls over the valuation of property and of the work of the group's external property surveyors, including inquiries of the surveyors and an assessment of whether their work was suitable for the purpose of our audit. We agreed key assumptions to third party analyst consensus views and verified a sample of individual valuations to recent comparable market transactions. We verified property additions and disposals in the period to third party documentation.

The group's disclosures in respect of investment properties are included in note 8.

Management override of financial control

Under ISAs (UK & Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures relating to this risk that are required by ISA 240 'The auditor's responsibilities relating to fraud in an audit of financial statements'. This included tests of journal entries, the evaluation of judgements and assumptions in management's estimates and tests of significant transactions outside the normal course of business.

In particular, our work on investment property valuations addressed key aspects of ISA 240.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Other reporting responsibilities

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

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

- 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 27, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Highcroft Investments PLC for the year, and on the information in the Directors' Remuneration Report that is described as having been audited.

Grant Thornton UK LLP.

Nicholas Watson
(Senior Statutory Auditor)
for and on behalf of
Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

26 March 2014

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Gross rental revenue		**2,731**	**–**	**2,731**	2,351	–	2,351
Property operating expenses	8	**(151)**	**–**	**(151)**	(184)	–	(184)
Net rental income		**2,580**	**–**	**2,580**	2,167	–	2,167
Realised gains on investment property		**415**	**–**	**415**	1,552	–	1,552
Realised losses on investment property		**–**	**–**	**–**	–	–	–
Net gains on investment property		**415**	**–**	**415**	1,552	–	1,552
Valuation gains on investment property		**–**	**1,833**	**1,833**	–	1,769	1,769
Valuation losses on investment property		**–**	**(590)**	**(590)**	–	(2,355)	(2,355)
Net valuation gains/(losses) on investment property	8	**–**	**1,243**	**1,243**	–	(586)	(586)
Dividend revenue		**234**	**–**	**234**	251	–	251
Gains on equity investments	9	**–**	**832**	**832**	–	677	677
Losses on equity investments	9	**–**	**(63)**	**(63)**	–	(179)	(179)
Net investment income		**234**	**769**	**1,003**	251	498	749
Administration expenses	3	**(345)**	**–**	**(345)**	(311)	–	(311)
Net operating profit before net finance (expense)/income		**2,884**	**2,012**	**4,896**	3,659	(88)	3,571
Finance income		**7**	**–**	**7**	8	–	8
Finance expense		**(61)**	**–**	**(61)**	–	–	–
Net finance (expense)/income		**(54)**	**–**	**(54)**	8	–	8
Profit/(loss) before tax		**2,830**	**2,012**	**4,842**	3,667	(88)	3,579
Income tax credit/(expense)	5	**91**	**(77)**	**14**	53	(38)	15
Total profit and comprehensive income for the year		**2,921**	**1,935**	**4,856**	3,720	(126)	3,594
Basic and diluted earnings per share	7	**56.5p**	**37.5p**	**94.0p**	72.0p	(2.5p)	69.6p

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

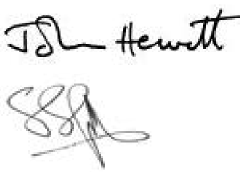
The accompanying notes form an integral part of these financial statements.

Consolidated statement of financial position

at 31 December 2013

	Note	**2013 £'000**	2012 £'000	2011 £'000
Assets				
Non-current assets				
Investment property	8	**39,415**	31,609	30,787
Equity investments	9	**5,227**	5,713	5,598
Total non-current assets		**44,642**	37,322	36,385
Current assets				
Trade and other receivables	10	**422**	254	217
Cash and cash equivalents		**3,128**	3,274	1,926
Total current assets		**3,550**	3,528	2,143
Total assets		**48,192**	40,850	38,528
Liabilities				
Current liabilities				
Trade and other payables	11	**1,160**	1,000	681
Total current liabilities		**1,160**	1,000	681
Non-current liabilities				
Interest bearing loan	12	**4,000**	–	–
Deferred tax liabilities	13	**604**	609	624
Total non-current liabilities		**4,604**	609	624
Total liabilities		**5,764**	1,609	1,305
Net assets		**42,428**	39,241	37,223
Equity				
Issued share capital	14	**1,292**	1,292	1,292
Revaluation reserve – property		**7,353**	7,050	4,904
– other		**1,972**	1,746	1,592
Capital redemption reserve		**95**	95	95
Realised capital reserve		**24,220**	22,366	21,428
Retained earnings		**7,496**	6,692	7,912
Total equity		**42,428**	39,241	37,223

These financial statements were approved by the board of directors on 26 March 2014.



J Hewitt
S T Gill
Directors

Company number – 00224271

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

Consolidated statement of changes in equity

2013	Issued share capital £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2013	1,292	7,050	1,746	95	22,366	6,692	39,241
Dividends	–	–	–	–	–	(1,669)	(1,669)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	–	1,243	610	–	–	(1,853)	–
Tax on revaluation gains/(losses)	–	–	(43)	–	–	43	–
Realised gains	–	–	–	–	527	(527)	–
Surplus attributable to assets sold in the year	–	(986)	(341)	–	1,327	–	–
Excess of cost over revalued amount taken to retained earnings	–	46	–	–	–	(46)	–
Transactions with owners	–	303	226	–	1,854	(4,052)	(1,669)
Profit and total comprehensive income for the year	–	–	–	–	–	4,856	4,856
At 31 December 2013	**1,292**	**7,353**	**1,972**	**95**	**24,220**	**7,496**	**42,428**

2012	Issued share capital £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2012	1,292	4,904	1,592	95	21,428	7,912	37,223
Dividends	–	–	–	–	–	(1,576)	(1,576)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation losses	–	(586)	416	–	–	170	–
Tax on revaluation gains/(losses)	–	–	(20)	–	–	20	–
Realised gains	–	–	–	–	1,608	(1,608)	–
Surplus attributable to assets sold in the year	–	912	(242)	–	(670)	–	–
Excess of cost over revalued amount taken to retained earnings	–	1,820	–	–	–	(1,820)	–
Transactions with owners	–	2,146	154	–	938	(4,814)	(1,576)
Profit and total comprehensive income for the year	–	–	–	–	–	3,594	3,594
At 31 December 2012	1,292	7,050	1,746	95	22,366	6,692	39,241

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 2013

		2013 £'000	2012 £'000
Operating activities			
Profit for the year		**4,856**	3,594
Adjustments for:			
Net valuation (gains)/losses on investment property		**(1,243)**	586
Gain on disposal of investment property		**(415)**	(1,552)
Gain on investments		**(769)**	(498)
Finance income		**(7)**	(8)
Finance expense		**61**	–
Income tax credit		**(14)**	(15)
Operating cash flow before changes in working capital and provisions		**2,469**	2,107
Increase in trade and other receivables		**(168)**	(37)
Increase in trade and other payables		**126**	319
Cash generated from operations		**2,427**	2,389
Finance income		**7**	8
Finance expense		**(27)**	–
Income taxes received		**7**	–
Net cash flows from operating activities		**2,414**	2,397
Investing activities			
Purchase of non-current assets	– investment property	**(8,488)**	(4,827)
	– equity investments	**(125)**	(540)
Sale of non-current assets	– investment property	**2,340**	4,972
	– equity investments	**1,382**	922
Net cash flows from investing activities		**(4,891)**	527
Financing activities			
Dividends paid		**(1,669)**	(1,576)
New bank borrowings		**4,000**	–
Net cash flows from financing activities		**2,331**	(1,576)
Net (decrease)/increase in cash and cash equivalents		**(146)**	1,348
Cash and cash equivalents at 1 January 2013		**3,274**	1,926
Cash and cash equivalents at 31 December 2013		**3,128**	3,274

Notes to the financial statements

for the year ended 31 December 2013

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 2013 comprise the company and its subsidiary, together referred to as the group. The accounting policies remain unchanged.

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 statement of comprehensive income 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 2013 and adopted for the first time with no impact on these financial statements.

- IFRS 13 Fair Value Measurement (effective 1 January 2013)

Amendments to and interpretations of existing standards that are relevant to the group but are not yet effective 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 2014:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)

Management does not expect to implement the above standards until all of their chapters have been published and they can comprehensively assess the impact of all the changes.

Notes to the financial statements continued

for the year ended 31 December 2013

1 Significant accounting policies continued

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiary, Rodenhurst Estates Limited, which are both made up to 31 December 2013, and use consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

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 group'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 are 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 it relates 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.

1 Significant accounting policies continued

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.

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 at fair value through profit and loss on the basis that to do so is in accordance with its documented investment strategy. Over 99.8% of the group's equity investments are quoted and 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. Segmental 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.

Notes to the financial statements continued

for the year ended 31 December 2013

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, warehouses and retail warehouses
- residential property comprising single-let houses and flats
- financial assets comprising exchange-traded equity investments.

	2013 £'000	2012 £'000
Commercial property		
Gross income	**2,691**	2,308
Profit for the year	**3,633**	2,650
Assets	**41,397**	33,369
Liabilities	**5,012**	856
Residential property		
Gross income	**40**	43
Profit for the year	**236**	214
Assets	**1,482**	1,266
Liabilities	**–**	2
Financial assets		
Gross income	**233**	251
Profit for the year	**987**	731
Assets	**5,313**	6,215
Liabilities	**751**	751
Total		
Gross rental and dividend income	**2,964**	2,602
Profit for the year	**4,856**	3,595
Assets	**48,192**	40,850
Liabilities	**5,763**	1,609

In 2013 and in 2012 the largest tenant represented less than 10% of gross commercial property income for the year.

3 Administrative expenses

	2013 £'000	2012 £'000
Directors (note 4)	**188**	156
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**21**	19
Fees payable to the company's auditor for other services:		
Other services pursuant to legislation	**1**	1
Other expenses	**135**	135
	345	311

4 Directors

	2013 £'000	2012 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**171**	141
Social security costs	**17**	15
	188	156

The average number of employees, all of whom were directors, of the group during the year was 5 (2012 5). 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

	2013 £'000	2012 £'000
Current tax:		
On revenue profits	**(82)**	(53)
On capital profits	**34**	18
Prior year overprovision on capital profits	**(9)**	–
	(57)	(35)
Deferred tax (note 13)	**43**	20
Income tax credit	**(14)**	(15)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012 24.5%).

The differences are explained as follows:

	2013 £'000	2012 £'000
Profit before tax	**4,842**	3,579
Profit before tax multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 24.5%)	**1,126**	877
Effect of:		
Tax exempt revenues	**(199)**	(62)
Profit not taxable as a result of REIT status	**(985)**	(768)
Chargeable gains less than accounting profit	**48**	10
Losses brought/(carried) forward	**12**	(22)
Effect of change in tax rate on deferred tax liability	**(7)**	(50)
Adjustments to tax charge in respect of prior periods	**(9)**	–
Income tax credit	**(14)**	(15)

6 Dividends

In 2013 the following dividends have been paid by the company:

	2013 £'000	2012 £'000
2012 Final: 19.8p per ordinary share (2011 18.5p)	**1,023**	956
2013 Interim: 12.5p per ordinary share (2012 12.0p)	**646**	620
	1,669	1,576

On 26 March 2014 the directors declared a property income distribution of £1,098,000, 21.25p per share (2012 £1,023,000, 19.8p per share) payable on 30 May 2014 to shareholders registered at 2 May 2014.

Notes to the financial statements continued

for the year ended 31 December 2013

7 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £4,856,000 (2012 £3,594,000) and on 5,167,240 shares (2012 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2013 and throughout the period since 1 January 2013. 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 £2,921,000 (2012 £3,720,000) has been calculated.

	2013 £'000	2012 £'000
Earnings:		
Basic profit for the year	**4,856**	3,594
Adjustments for:		
Net valuation (gains)/losses on investment property	**(1,243)**	586
Gains on investments	**(769)**	(498)
Income tax on gains	**77**	38
Adjusted earnings	**2,921**	3,720
Per share amount:		
Earnings per share (unadjusted)	**94.0p**	69.6p
Adjustments for:		
Net valuation (gains)/losses on investment property	**(24.1p)**	11.3p
Gains on investments	**(14.9p)**	(9.6p)
Income tax on gains	**1.5p**	0.7p
Adjusted earnings per share	**56.5p**	72.0p

8 Investment property

	2013 £'000	2012 £'000	2011 £'000
Valuation at 1 January	**31,609**	30,787	30,705
Additions	**8,488**	4,827	2,871
Disposals	**(1,925)**	(3,419)	(2,518)
Revaluation gains/(losses)	**1,243**	(586)	(271)
Valuation at 31 December	**39,415**	31,609	30,787

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 Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2013, 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 uses market evidence and also 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 2013 one investment property with a carrying amount of £1,400,000 is charged to Lloyds TSB Bank plc to provide security for any future borrowings. In addition, two investment properties with a carrying amount of £8,800,000 are charged to Svenska Handelsbanken AB (publ) to secure the group's medium term loans.

8 Investment property continued

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

	2013 £'000	2012 £'000	2011 £'000
Less than one year	**2,764**	2,251	2,091
Between one and five years	**8,312**	7,231	5,730
More than five years	**13,819**	11,235	8,881
	24,895	20,717	16,702

Property operating expenses are analysed as follows:

	2013 £'000	2012 £'000	2011 £'000
Arising from generating rental income	**151**	181	221
Not arising from generating rental income	**–**	3	82
	151	184	303

9 Equity investments

	2013 £'000	2012 £'000	2011 £'000
Valuation at 1 January	**5,713**	5,598	5,608
Additions	**127**	540	423
Disposals	**(1,236)**	(849)	(186)
Surplus/(deficit) on revaluation in excess of cost	**610**	416	(238)
Revaluation decrease below cost	**(4)**	(17)	(15)
Revaluation increase still less than cost	**17**	25	6
Valuation at 31 December	**5,227**	5,713	5,598

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

	2013 £'000	2012 £'000	2011 £'000
Realised gains on equity investments	**179**	79	81
Revaluation gains on equity investments	**653**	598	316
	832	677	397

	2013 £'000	2012 £'000	2011 £'000
Realised losses on equity investments	**33**	5	24
Revaluation losses on equity investments	**30**	174	563
	63	179	587

Notes to the financial statements continued

for the year ended 31 December 2013

10 Trade and other receivables

	2013 £'000	2012 £'000	2011 £'000
Trade receivables	**141**	63	167
Bad debt provision	**–**	(2)	(41)
Net trade receivables	**141**	61	126
Debtor arising from IFRS treatment of rent-free periods	**271**	119	73
Other receivables	**10**	74	18
	422	254	217

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 2013 amounts due from tenants which were more than 90 days overdue, which related to rents for 2013 or earlier, totalled £nil (2012 £2,000). Provisions against these overdue amounts totalled £2,000 at the beginning of the year, of which £2,000 was released, to give a provision of £nil at 31 December 2013.

The debtor arising from the IFRS treatment of rent-free periods is due to the recognition of rental income on a straight-line basis over the lease term, with the difference between this and the cash receipt being included as a debtor. Once the rent free periods have expired the debtor will reduce to £nil over the relevant lease terms. During the year an amount of £27,000 (2012 £nil) was written off to commercial rental income as a property was disposed of.

11 Trade and other payables

	2013 £'000	2012 £'000	2011 £'000
Deferred income	**661**	556	438
Social security and other taxes	**238**	226	26
Other payables	**261**	218	217
	1,160	1,000	681

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

12 Interest bearing loans

	2013 £'000	2012 £'000	2011 £'000
Medium term bank loans	**4,000**	–	–
The medium term bank loans comprise amounts falling due as follows:			
Between one and two years	**–**	–	–
Between two and five years	**–**	–	–
Over five years	**4,000**	–	–
	4,000	–	–

13 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 21% (2012 23%).

	2013 £'000	2012 £'000	2011 £'000
At 1 January	**609**	624	764
Realised in the year	**(48)**	(35)	(6)
Provided/(released) in the year	**43**	20	(134)
At 31 December	**604**	609	624

14 Share capital

	2013 £'000	2012 £'000	2011 £'000
Allotted, called up and fully paid 5,167,240 (2012 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 £4,000,000 of medium-term debt at 31 December 2013 (2012 £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 policy is principally carried out by the realisation of liquid equity investments, the sale of residential properties and the use of surplus cash. In the medium term the directors may use additional medium-term debt to finance future commercial property acquisitions in line with its long term strategy.

15 Capital commitments

There were no capital commitments at 31 December 2013 or at 31 December 2012.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2013 or 31 December 2012.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 25.50% (2012 25.40%) of the company's shares and D H Kingerlee is, and J C Kingerlee was during the year until his resignation, a director and shareholder of both the company and Kingerlee Holdings Limited. The transactions between the group and Kingerlee Holdings Limited or its subsidiaries were as follows:

	2013 £'000	2012 £'000
Property income distribution	**424**	400
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Repairs to properties	**7**	–
Amounts outstanding at the end of the year	**–**	–

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

	2013 £'000	2012 £'000
Dividend received	**2,000**	2,000
Management charge receivable	**133**	133
Interest receivable on intercompany loan	**71**	54
Amounts outstanding at the end of the year	**35**	4,427

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 (or period of office if shorter) in respect of their shareholdings:

	2013 £'000	2012 £'000
J Hewitt	**4**	3
D H Kingerlee	**29**	27
J C Kingerlee (retired 31 July 2013)	**26**	40

Notes to the financial statements continued

for the year ended 31 December 2013

18 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 (2012 none). The change in fair value for the current and previous years is recognised through the consolidated statement of comprehensive income. The reconciliation of the carrying amounts of the financial instruments classified within levels 1 and 3 is set out below.

Investment properties are carried at fair value, categorised with level 2 inputs. Details of the valuation process are included in note 8 to the financial statements.

	2013			2012		
	Level 3 Unquoted equity invest-ments £'000	**Level 1 Quoted equity invest-ments £'000**	**Total Quoted and unquoted £'000**	Level 3 Unquoted equity invest-ments £'000	Level 1 Quoted equity invest-ments £'000	Total Quoted and unquoted £'000
Opening cost	**4**	**2,591**	**2,595**	4	2,655	2,659
Opening unrealised gain	**5**	**3,113**	**3,118**	5	2,934	2,939
Opening fair value at 1 January 2013	**9**	**5,704**	**5,713**	9	5,589	5,598
Additions at cost	**–**	**127**	**127**	–	540	540
Disposal proceeds	**–**	**(1,382)**	**(1,382)**	–	(924)	(924)
Net gain realised on disposal	**–**	**146**	**146**	–	75	75
Change in fair value in the year on assets held at 31 December	**–**	**623**	**623**	–	424	424
Closing fair value at 31 December 2013	**9**	**5,218**	**5,227**	9	5,704	5,713
Closing cost	**4**	**1,823**	**1,827**	4	2,591	2,595
Closing unrealised gain	**5**	**3,395**	**3,400**	5	3,113	3,118
At 31 December 2013	**9**	**5,218**	**5,227**	9	5,704	5,713

18 Financial instruments and financial risk continued

Categories of financial instruments	2013 Carrying amount £'000	2013 Income £'000	2012 Carrying amount £'000	2012 Income £'000
Financial assets designated at fair value through the income statement:				
Equity investments	**5,227**	**623**	5,713	424
Loans and receivables:				
Trade and other receivables	**422**	**–**	254	–
Cash and cash equivalents	**3,128**	**–**	3,274	–
	3,550	**–**	3,528	–
Financial liabilities measured at amortised cost:				
Interest bearing loans	**4,000**	**–**	–	–
Trade and other payables	**261**	**–**	218	–
	4,261	**–**	218	–

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 2013 the group had £4,000,000 of medium-term borrowing at fixed interest rates. The 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.

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 2013 was £nil (2012 £2,000).

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 Svenska Handelsbanken AB (publ). 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 medium term borrowings at an interest rate that is fixed over the term of the loan. Interest rate swaps have not 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.

Notes to the financial statements continued

for the year ended 31 December 2013

18 Financial instruments and financial risk continued

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 29.3% (2012 25.9%) 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 2013 there were no group financial liabilities at variable rates (2012 £nil).

Borrowing facilities

The group has no undrawn committed borrowing facilities.

19 Net assets per share

	2013 £'000	2012 £'000
Net assets	**42,428**	39,241
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**821p**	759p

Independent auditor's report to the members of Highcroft Investments PLC

We have audited the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2013 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the parent company 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 parent company 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 Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company 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.

Other matter

We have reported separately on the group financial statements of Highcroft Investments PLC for the year ended 31 December 2013.

Grant Thornton UK LLP.

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

26 March 2014

Company balance sheet

at 31 December 2013

		2013		2012	
	Note	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Investments	5		**42,955**		35,005
Current assets					
Debtors	6	**56**		4,447	
Cash at bank		**86**		501	
		142		4,948	
Creditors – amounts falling due within one year	7	**158**		151	
Net current (liabilities)/assets			**(16)**		4,797
Total assets less current liabilities			**42,939**		39,802
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
– Realised capital	9	**6,451**		6,047	
– Capital redemption		**95**		95	
– Revaluation	9	**30,529**		28,327	
– Retained earnings	9	**4,572**		4,041	
			41,647		38,510
Shareholders' funds	11		**42,939**		39,802

These financial statements were approved by the board of directors on 26 March 2014.

J Hewitt
S T Gill
Directors

Company number – 00224271

Notes to the company financial statements

For the year ended 31 December 2013

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 retained earnings. 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 (99.8% are 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 £2,823,000 (2012 £2,613,000). Information regarding directors' remuneration appears on pages 22 to 25 of the consolidated financial statements.

3 Auditor's fees

	2013 £'000	2012 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**21**	19
Fees payable to the company's auditor for other services:		
Other services pursuant to legislation	**1**	1
	22	20

Notes to the company financial statements continued

For the year ended 31 December 2013

4 Dividends

In 2013 the following dividends have been paid by the company:

	2013 £'000	2012 £'000
2012 Final: 19.8p per ordinary share (2011 18.5p)	**1,023**	956
2013 Interim: 12.5p per ordinary share (2012 12.0p)	**646**	620
	1,669	1,576

On 26 March 2014 the directors declared a property income distribution of £1,098,000, 21.25p per share (2012 £1,023,000, 19.8p per share) payable on 30 May 2014 to shareholders registered at 2 May 2014.

5 Investments

	Total £'000	Shares in subsidiary under-taking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Valuation at 1 January 2013	35,005	29,292	5,704	9
Additions at cost	6,644	6,517	127	–
Disposals	(1,236)	–	(1,236)	–
Surplus on revaluation in excess of cost	2,543	1,919	624	–
Revaluation decrease below cost	(4)	–	(4)	–
Revaluation increase still less than cost	3	–	3	–
Valuation at 31 December 2013	**42,955**	**37,728**	**5,218**	**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 £'000	Shares in subsidiary under-taking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Cost at 31 December 2013	**12,097**	**10,271**	**1,822**	**4**
Cost at 31 December 2012	6,947	3,754	2,591	4

At 31 December 2013, 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 2013 the net assets of Rodenhurst Estates Limited were £37,728,000 (2012 £29,292,000) and the profit for the financial year was £2,676,000 (2012 £3,503,000).

During the year Rodenhurst Estates Limited issued 360,233 shares at £18.09 per share to the company in satisfaction of £6,516,615 of debt.

6 Debtors

	2013 £'000	2012 £'000
Owed by subsidiary undertaking	**53**	4,427
Other debtors	**3**	20
	56	4,447

7 Creditors – amounts falling due within one year

	2013 £'000	2012 £'000
Other taxes and social security	**8**	9
Other creditors	**150**	142
	158	151

8 Share capital

	2013 £'000	2012 £'000
Allotted, called up and fully paid 5,167,240 (2012 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 2013	28,327	6,047	4,041
Profit retained	–	–	2,823
Dividends paid	–	–	(1,669)
Revaluation gain – equities	623	–	(623)
Revaluation gain – Rodenhurst Estates Limited	1,919	–	–
Realised gains	–	112	–
Tax on realised gains	–	(48)	–
Surplus attributable to assets sold in the year	(340)	340	–
At 31 December 2013	**30,529**	**6,451**	**4,572**

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 21% (2012 23%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Unrealised capital gains	**–**	–	**6,555**	5,357

Notes to the company financial statements continued

For the year ended 31 December 2013

11 Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Profit for the financial year	**2,823**	2,613
Dividends	**(1,669)**	(1,576)
	1,154	1,037
Other recognised gains and losses:		
Surplus on revaluation of assets	**1,919**	916
Realised gains	**112**	57
Tax on prior year's surplus now realised	**(48)**	(35)
Net increase in shareholders' funds	**3,137**	1,975
Shareholders' funds at 1 January	**39,802**	37,827
Shareholders' funds at 31 December	**42,939**	39,802

12 Capital commitments

There were no capital commitments at 31 December 2013 or at 31 December 2012.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2013 or at 31 December 2012.

14 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 25.50% (2012 25.40%) of the company's shares and D H Kingerlee is, and J C Kingerlee was during the year until his resignation, a director and shareholder 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:

	2013 £'000	2012 £'000
Property income distribution	**424**	400
Service charge in relation to services provided at Thomas House, Kidlington	**14**	14
Amounts outstanding at the end of the year	**–**	–

Under the provisions 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)

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Investment properties – at annual valuation	**39,415**	31,609	30,787	30,705	27,825
Equity investments – at market value	**5,227**	5,713	5,598	5,608	7,397
Total net assets	**42,428**	39,241	37,223	37,002	34,435
Net asset value per share in issue at end of each year	**821p**	759p	720p	716p	666p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**2,731**	2,351	2,129	2,053	1,943
Dividend income	**233**	251	261	234	292
Profit available for distribution	**2,920**	3,720	2,066	1,965	1,670
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**94.0p**	69.6p	33.4p	76.7p	76.2p
Adjusted earnings per ordinary share	**56.5p**	72.0p	40.1p	38.0p	32.3p
Dividends payable per ordinary share	**33.75p**	31.8p	30.0p	28.6p	26.0p
FTSE 350 Real Estate Index	**469**	394	314	354	347
Highcroft year end share price	**720p**	590p	465p	495p	445p

Directors and advisers

Company number
00224271

Directors
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Richard Stansfield, BSc FRICS (Non-executive)
Simon Gill, BSc FRICS (Chief executive)
Roberta Miles, MA FCA (Finance)
David Kingerlee (Executive)

Company secretary
Roberta Miles, MA FCA

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