# Highcroft
## Investments PLC





# 2014

**Annual Report and Financial Statements**
For the year ended 31 December 2014
www.highcroftplc.com
Stock code: HCFT

# Welcome to Highcroft Investments PLC 2014 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
- Use medium term gearing at a modest level if appropriate

## 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

## Highcroft Investments PLC online

View more information online at:
www.highcroftplc.com

## Getting around the report

Annual Report page navigation device

Online navigation device

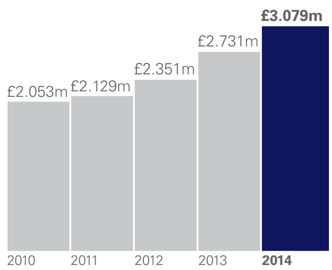
# Chairman's Introduction

Welcome to our 2014 annual report and financial statements. This document provides a review of the business for the financial year, summarises our strategic approach, the ways in which we manage risk and also our approach to corporate governance. The board is pleased with the performance of the group and believes that it is well placed to progress towards its 2015 objectives.

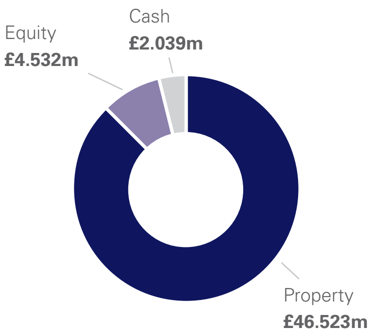
**John Hewitt**
Non-executive chairman

# Key Highlights

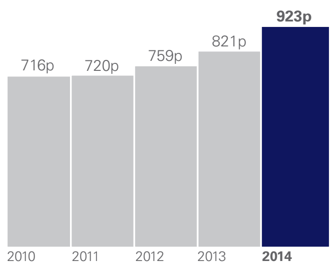
### Gross income from property
£3.08m ↑12.7%



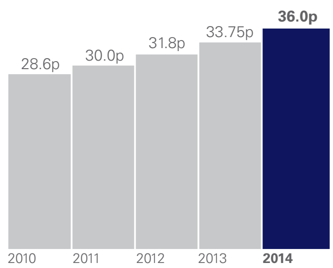

### Investments & cash at market value




### Net asset value per share
923p ↑12.4%
2013 821p




### Dividends payable
36.0p ↑6.7%
2013 33.75p




- The report of the directors on pages 25-26 and the directors' remuneration report on pages 21 to 24 have each been drawn up in accordance with the requirements of company law, and liability in respect thereof is also governed by company 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 2014.
- 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.

# Contents

# At a glance

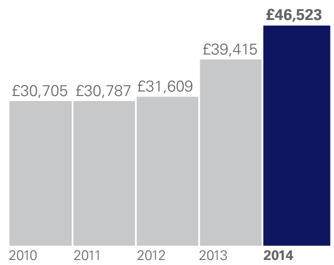
The commercial property portfolio that we own and manage is valued at £45,215,000, and in addition there is a small residential portfolio valued at £1,308,000, a total of £46,523,000. Our equity investments are valued at £4,532,000.

## Property investments

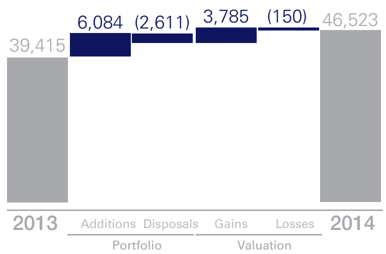
### Investment properties – at annual valuation

£46.523m ↑18%

2013 £39.415m



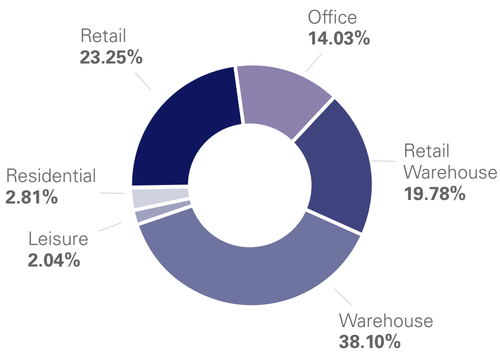

### Property portfolio value (£'000)



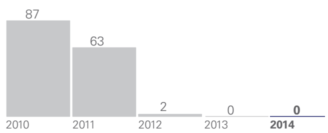

| Commercial | | £000 |
|---|---|---|
| 1 | Retail warehouse in Bicester let to Wickes | 6,400 |
| 2 | Retail units in Oxford let to Jigsaw | 3,755 |
| 3 | Office building in Cardiff let to Arriva Trains | 3,600 |
| 4 | Warehouse in Milton Keynes let to Ikea | 3,350 |
| 5 | Warehouse in AshVale, Aldershot let to SIG Trading | 3,350 |
| 6 | Warehouse in Andover let to Jewsons | 3,000 |
| 7 | Radio station and office building in Oxford let to the BBC | 2,925 |
| 8 | Distribution centre in Kidlington, Oxfordshire let to Parcelforce | 2,825 |
| 9 | Retail warehouse in Crawley let to Pets at Home | 2,800 |
| 10 | Warehouse in Bedford let to Booker | 2,300 |
| 11 | Multi-let retail units in Cirencester, with residential above | 1,500 |
| 12 | Industrial unit in Warwick let to Nationwide Crash Repair | 1,500 |
| 13 | Distribution centre in Southampton let to Metabo | 1,400 |
| 14 | Retail unit in Leamington Spa let to Thorntons | 1,375 |
| 15 | Multi-let retail units in Staines, with offices above | 1,350 |
| 16 | Retail unit in Oxford let to Britannia Building Society | 1,235 |
| 17 | Licensed leisure and retail property in Warrington let to Wetherspoons and Cash Converters | 950 |
| 18 | Retail unit in Norwich let to Austin Reed | 900 |
| 19 | Retail unit in Kingston let to Kaleido | 700 |
| **Total commercial** | | **45,215** |
| **Residential properties** | | **1,308** |
| **Total** | | **46,523** |

## Property investments

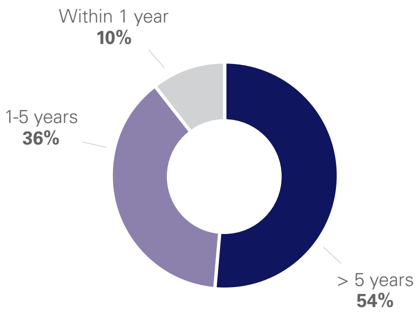
### Split by sector



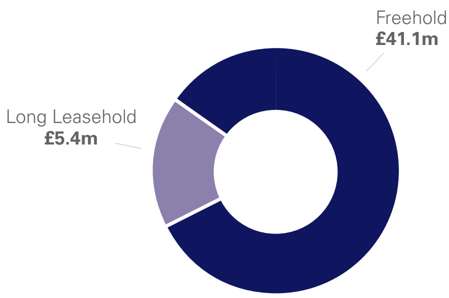

### Cost of voids (£'000)




### Lease expiry




### Tenure



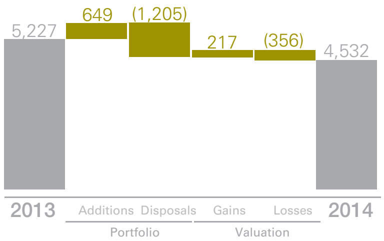

## Equity investments

### Equity portfolio value

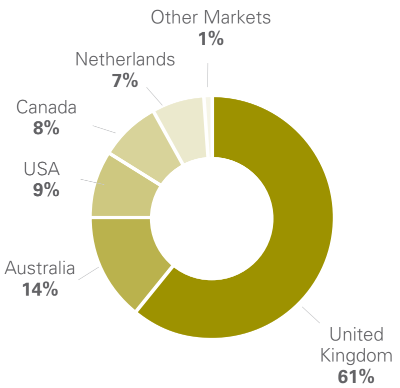
£4.532m ↓ 13%

2013 £5.227m

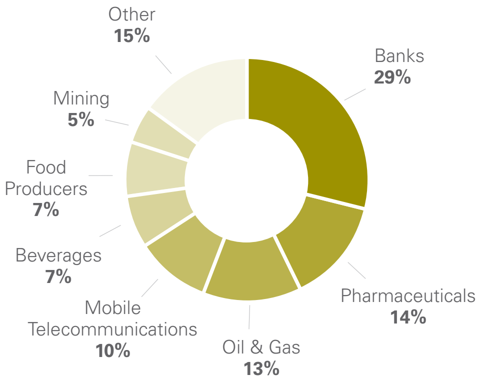
### Equity portfolio value (£'000)




### Geographic split




### Split by sector




### Group statement

The board is pleased to announce strong growth in all its key performance indicators.

### Highcroft year end share price

**855p**
2014

**720p**
2013

**590p**
2012

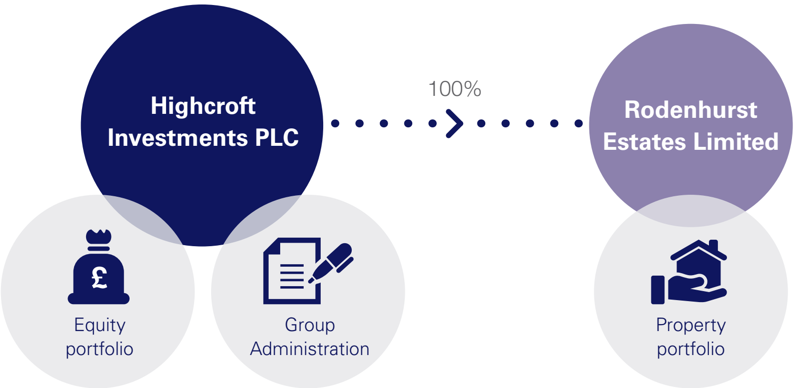
**465p**
2011

**495p**
2010

**445p**
2009

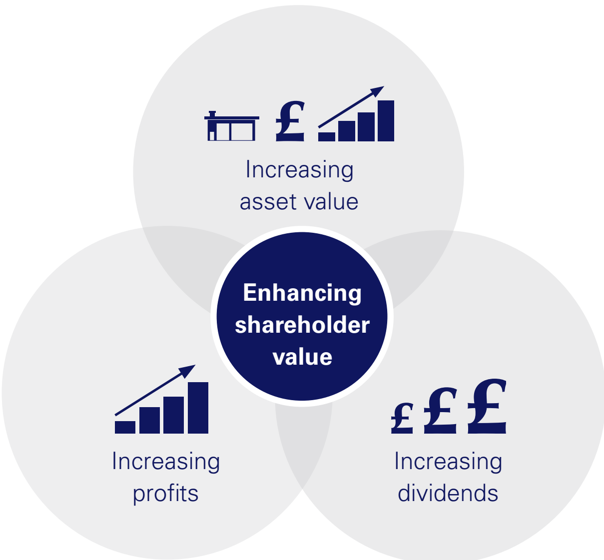
# About us

## 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.

Read more about our property portfolio on pages 9 to 11

Read more about our equity portfolio on pages 11 and 12

## Our people

Highcroft is managed by a team of three executive directors and two non-executive directors; more detail on their roles and skills is set out on page 15. We have one female and four male directors. We have no other employees other than a part-time book-keeper. As you are aware Richard Stansfield leaves the board in May 2015 after 12 years as senior independent director. We are very grateful for his wise council and in particular his role in our governance processes as a member of the nomination committee, chairman of the remuneration committee and as a member of and, since 2012, chairman of the audit committee. We are currently recruiting his successor.

## Our strategy

The board reviews its objectives each year and agrees the detailed strategy that it will follow. It was agreed that the board would during 2014:

- 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
- Use medium term gearing at a modest level if appropriate

## Key performance indicators

**Increase value of property portfolio**
Growth ↑ 18.0%
2014 £46.5m
2013 £39.4m

**Increase gross property income**
Growth ↑ 12.7%
2014 £3.08m
2013 £2.7m

**Increase net asset value per share**
Growth ↑ 12.4%
2014 923p
2013 821p

**Increase dividends payable to shareholders**
Growth ↑ 6.7%
2014 36.00p
2013 33.75p

### Property portfolio

# £46.523m

The property portfolio that we own and manage is valued at £46,523,000

### Equity portfolio

# £4.532m

Our equity investments are valued at £4,532,000

### Property portfolio

# 19 properties

Our property portfolio is spread across 19 properties predominantly in the south-east of England

### Equity portfolio

# 26 holdings

Our equity portfolio is spread across 26 holdings, covering a range of sectors and geographical markets, with a bias towards the UK

### Marketplace

2014 witnessed even more money seeking investment in the property market from major pension funds down to the private investor. Additionally, the amount of foreign money pouring into UK investment markets created greater pressure and competition although this was mainly for the prime sector of the market. Towards the end of the year we at last witnessed a slight improvement in confidence in the high street retail sector, although this was in the prime sector and there are still uncertainties over some retailers. Investment yields continued to improve in most sectors although this was driven in the majority of cases more by the desire of investors seeking a return on their money rather than a belief of significant rental growth to come.

### Our investment portfolios

The commercial property portfolio that we own and manage is valued at £45,215,000 and in addition there is a small residential portfolio of £1,308,000, a total of £46,523,000. Our equity investments are valued at £4,532,000. More detail regarding the composition and performance of our portfolios is set out on pages 2 to 3.

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, additional, gearing in the future. Our current gearing is 9% of the property portfolio (7% of total assets).

Our equity portfolio is spread across 26 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 gradually move towards Highcroft becoming a pure REIT by divesting, over a number of years, from our equity portfolio. The net cash that is released will be re-invested into the property portfolio in line with our strategy to provide enhanced returns to our shareholders.

# Managing risk

### 1. Economic Climate

#### Risks and impacts

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 our buildings becoming less desirable to new tenants, this could cause tenants to fail, and result in bad debts and/or void periods reducing our profit and cash-flow in the short term. This could also result in a reduction in tenant and investor demand for property, property valuations and net asset per share values and lessen our ability to secure finance.

#### How we manage/mitigate the risk

We regularly review, with our property 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 areas which are considered low-risk. The group spreads its investment risk across a number of sectors (retail, office, retail warehouse, warehouse, leisure) and regularly reviews this mix.

#### Measurement of our exposure

Our portfolio has performed well in the period. At the start of 2014 there was a void on part of our Bristol property but this represented less than 1.5% of our portfolio income. The tenant of one of our Cirencester retail units went into administration on 14 September 2014 resulting in a reduced rental income of £8,000.

#### Movement in risk exposure in the period

### 2. Tenant default

#### Risks and impacts

A tenant failure or entry into a CVA could result in reduced income and increased costs and also affect our property valuation in the short term.

#### How we manage/mitigate the risk

We assess, with the aid of our advisers, the financial status and credit worthiness 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 by individual property and covenant so that the risks associated with the default of an individual tenant are minimised.

Rent collections are continually reviewed by our property managers and monitored weekly by the executive directors.

#### Measurement of our exposure

During 2014 bad debts were nil and we had few voids. Our rent collections were 96% by the quarter day and 98% within 1 week of the quarter day. Arrears are nominal and remain at a historic low. The group has 24 commercial tenants and our five largest tenants by current passing rent provide 44% (2013 45%) of current income.

#### Movement in risk exposure in the period

### 3. REIT status

#### Risks and impacts

In order to maintain Highcroft's REIT status it is necessary to meet certain balance of asset and income tests 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.

#### How we manage/mitigate the risk

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 other ratios regularly.

#### Measurement of our exposure

Investments are a smaller percentage of our total assets.

Other ratios are well within acceptable limits.

#### Movement in risk exposure in the period

Key to change in risk

Down No change Up

## 4. Relationships with advisers and managers

### Risks and impacts

The performance of the property portfolio is key to our overall success and the professional advice we receive is critical.

### How we manage/ mitigate the risk

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.

### Measurement of our exposure

Our advisory teams are experienced and able to add valuable external advice.

### Movement in risk exposure in the period

## 5. Availability and cost of finance

### Risks and impacts

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.

### How we manage/ mitigate the risk

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.

### Measurement of our exposure

Our level of debt remained unchanged in 2014. It is all non-amortising, at a fixed rate of interest and secured on properties where the covenant is strong and the lease term extends beyond the loan terms. A number of lenders have expressed interest in lending to the group.

### Movement in risk exposure in the period

## 6. Business Strategy

### Risks and impacts

It is important that all of the directors are involved with, and are informed of, the business strategy. An inappropriate strategy and/ or under-performance against it could reduce the group's profitability and capital value.

### How we manage/ mitigate the risk

Board meetings are held on a regular basis for planning and forecasting for the business.

### Measurement of our exposure

All of our objectives set out at the end of 2013 were achieved by the end of 2014.

### Movement in risk exposure in the period

## 7. Loss of key personnel

### Risks and impacts

This may result in a lack of knowledge, skills and experience.

### How we manage/ mitigate the risk

Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff.

### Measurement of our exposure

In accordance with stated remuneration policy the parent company has introduced performance related remuneration in 2014

### Movement in risk exposure in the period

# Operating review

**Simon Gill**
Chief Executive

*"In 2014 we continued our strategy of improving the quality of the portfolio at Highcroft with considerable success and in spite of a very competitive investment market. Our reputation to perform quickly is essential and provides us with good opportunities"*

## Overall financial performance

As the tables on page 5 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.

Since 2009 (our first full accounting year as a REIT) our dividends have risen by a total of 38% – a compound annual increase of 6.7%. In the same period our net assets per share have increased by 39% from £6.66 per share to £9.23 per share and our share price by 92% from £4.45 to £8.55 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 £255,000 of cash (net of tax) from the equity portfolio and reinvested this, together with existing cash into the commercial property portfolio in two separate acquisitions. The group completed 2 commercial, 1 residential and 2 residential ground rent property disposals realising £3,548,000 of net cash, and is currently reviewing target investment opportunities.

## Allocation of total investments

| | **2014 %** | 2013 % | 2012 % | 2011 % | 2010 % |
|---|---|---|---|---|---|
| Commercial property | **89** | 85 | 82 | 82 | 78 |
| Residential property | **2** | 3 | 3 | 3 | 7 |
| Equity investments | **9** | 12 | 15 | 15 | 15 |
| Total | **100** | 100 | 100 | 100 | 100 |

## Summary of property investment activities

| | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Additions at cost | **6,084** | 8,488 | 4,827 | 2,871 | 1,558 |
| Net proceeds from disposals | **(3,548)** | (2,340) | (4,972) | (2,796) | (355) |
| Net investment in property portfolio | **2,536** | 6,148 | (145) | 75 | 1,203 |


Warehouse in Milton Keynes let to Ikea



**£2.787m**

In August 2014 we acquired, a freehold retail warehouse in Crawley, West Sussex for £2,787,000 including costs

**£3.297m**

In July 2014 a freehold warehouse property in Ash Vale, Aldershot was bought, off-market, for £3,297,000 including costs

## Property portfolio

In 2014 we continued our strategy of working through the portfolio and selling properties where we perceived little future rental growth and which were of great appeal to the private investor market; we sold properties in Bristol and Beckenham at figures considerably in excess of valuation (51% & 18%) as indicated in the summaries below.

The proceeds from these sales were re-invested in what we considered to be more attractive assets with good long term income, secured against attractive covenants and where we believe there to be good growth prospects; these properties were in Ash Vale, Aldershot let to SIG Trading Limited and Crawley let to Pets at Home Ltd. Our portfolio is under constant review.

## Property acquisitions

In July 2014 a freehold warehouse property in Ash Vale, Aldershot was bought, off-market, for £3,297,000 including costs. It is let to the excellent covenant of SIG Trading Limited part of the Sheffield Insulation Group. The lease has 12.75 years remaining until October 2027 and has the benefit of five yearly rent reviews.

In August 2014 we also acquired, for £2,787,000 including costs, a freehold retail warehouse investment in Crawley, West Sussex let to Pets at Home Ltd. The lease has 14.75 years remaining until October 2029 and has the benefit of five yearly rent reviews.

Our reputation in the market regarding our ability to perform on purchase transactions remains excellent, and we consider this to be an important factor in securing attractive opportunities.

## Property disposals

During 2014 the directors identified two assets which we could sell and reinvest the proceeds into assets with longer term leases and stronger covenants in line with our policy. The details are set out below. In addition the group sold two vacant residential units and two residential ground rents.

## Property disposal in the year

### Bristol

Lease to Royal Sun Alliance expired 24/12/13

Partially re-let in December 2013 @ £27,837 pa

December 2013 valuation: £1,500,000

April 2014 sale price: £2,270,000

Net initial yield to purchaser: 1.2%

Excess over December 2013 valuation: 51%

# Operating review continued

£3.635m

Overall our property portfolio increased in value during the year by £3,635,000

## Property disposal in the year


### Beckenham

Let to Superdrug for a term expiring in 2018 @ £72,000 pa

June 2014 valuation: £850,000

July 2014 auction sale price: £1,000,000

Net initial yield to purchaser: 6.8%

Excess over June 2014 valuation: 18%

### Realised and unrealised property gains

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

| | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Realised gains on investment property | **941** | 415 | 1,552 | 360 | 108 |
| Realised losses on investment property | **(4)** | – | – | (82) | (8) |
| | **937** | 415 | 1,552 | 278 | 100 |
| Revaluation gains on investment property | **3,785** | 1,833 | 1,769 | 801 | 1,735 |
| Revaluation losses on investment property | **(150)** | (590) | (2,355) | (1,072) | (158) |
| | **3,635** | 1,243 | (586) | (271) | 1,577 |

The realised gains arose primarily from the disposal of our Bristol and Beckenham properties. Overall our property portfolio increased in value during the year by £3,635,000 which represents 9.6% on a like for like basis. The individual losses on revaluation arose primarily from situations which we are actively managing where we have short unexpired lease terms.

### Balance of property portfolio

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

| | **2014 %** | 2013 % | 2012 % | 2011 % | 2010 % |
|---|---|---|---|---|---|
| Retail | **23** | 29 | 41 | 39 | 44 |
| Warehouse | **38** | 33 | 39 | 28 | 20 |
| Retail warehouse | **20** | 15 | – | – | – |
| Office | **14** | 17 | 13 | 26 | 25 |
| Leisure | **2** | 2 | 3 | 3 | 3 |
| Residential | **3** | 4 | 4 | 4 | 8 |
| Total | **100** | 100 | 100 | 100 | 100 |

## Property income

The directors monitor the growth in total property income. The results are indicative of the quality of our portfolio.

The annual growth in our property income can be summarised as:

| | **2014 %** | 2013 % | 2012 % | 2011 % | 2010 % |
|---|---|---|---|---|---|
| Increase in total property income | **13** | `16 | 10 | 4 | 6 |

The growth includes the effect of a full year's income from our Bicester and Cardiff properties which were purchased in July 2013 and November 2013 respectively. It also includes the effect of the income from our Ash Vale and Crawley acquisitions net of that on our disposals.

## 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 has been only one void in the portfolio. This existed at the beginning of the year on a single floor of the office building in Queen Square, Bristol which was disposed of in April. In addition one of our retail units in Cirencester is let to Phones4U (in administration) and we are currently agreeing the terms of a lease with a new tenant.

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

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

| | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Voids | **–** | – | 2 | 63 | 87 |
| Bad debts | **–** | – | – | – | 2 |

## Equity investment portfolio

In 2014 we released £255,000 of net cash from our equity portfolio after allowing for the acquisition costs of £649,000 for new holdings. During the year our existing holding of Vodafone shares, valued at £512,000 at 31 December 2013 was affected by the demerger of its US group. As a result we received a cash dividend of £63,000, an effective scrip dividend of £158,000, and our old Vodafone shares with a revised base cost of £440,000. These shares were then consolidated into a new Vodafone share and we also received shares in the demerged US group with a total base cost of £440,000. We still held the resultant shareholdings at 31 December 2014. The share transactions and the scrip dividend have been included within additions and disposals in note 9 to the accounts.

Read more about our equity portfolio on page 3

# Operating review continued

## Capital performance of the equity portfolio

Our portfolio performed in line with the market in 2014. Our gains and losses can be summarised as:

| | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Realised gains on equity investments | 14 | 179 | 79 | 81 | 69 |
| Realised losses on equity investments | (250) | (33) | (5) | (24) | (136) |
| | (236) | 146 | 74 | 57 | (67) |
| Revaluation gains on equity investments | 217 | 653 | 598 | 316 | 649 |
| Revaluation losses on equity investments | (356) | (30) | (174) | (563) | (73) |
| | (139) | 623 | 424 | (247) | 576 |

## Income from equity investments

Our income from equity investments has increased primarily due to the effect of the Vodafone demerger. A £63,000 cash dividend was received together with a £158,000 scrip dividend. The resultant underlying fall of £18,000 was due to the overall reduction in the equity portfolio.

| | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Income from equity investments | 437 | 234 | 251 | 261 | 234 |

## Financial Performance

### Financial performance – revenue activities

Gross income for the year ended 31 December 2014 increased 14% to £3,516,000 (2013 £2,965,000).

| **Analysis of gross income** | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Commercial property income | 3,044 | 2,691 | 2,308 | 2,086 | 1,995 |
| Residential property income | 35 | 40 | 43 | 43 | 58 |
| Gross income from property | 3,079 | 2,731 | 2,351 | 2,129 | 2,053 |
| Income from equity investments | 437 | 234 | 251 | 261 | 234 |
| Total income | 3,516 | 2,965 | 2,602 | 2,390 | 2,287 |

Underlying commercial property income has risen in 2014 as described on page 11.

Residential property income is generated from two regulated tenancies and two flats above commercial units together with ground rents. This dropped slightly in 2014 as one unit became vacant during 2013 and was sold in February 2014.

The movement in the income from equity investments is described on page 11.

| **Analysis of administrative and net finance expenses** | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Directors' Remuneration | 306 | 188 | 156 | 162 | 156 |
| Auditors' remuneration including other services | 34 | 22 | 20 | 21 | 20 |
| Other expenses | 92 | 135 | 135 | 152 | 154 |
| Administration expenses | 432 | 345 | 311 | 335 | 330 |
| Net finance expense/(income) | 170 | 54 | (8) | (15) | (9) |
| **Total expenses** | 602 | 399 | 303 | 320 | 321 |

Read more about our property portfolio on page 2

In 2014 the group introduced a performance related element to directors' pay and this, together with rises in base salaries, has increased directors' remuneration in 2014. These changes are described in more detail in the directors' remuneration report. Finance costs increased as the group took £4,000,000 of medium term borrowing during the second half of 2013. Other expenses have reduced as we have both minimised the work that we out-source and reduced some compliance costs.

| **Summary of profit before tax and income tax credit on revenue activities** | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Profit before tax | **3,693** | 2,830 | 3,667 | 2,045 | 1,821 |
| Income tax credit | **65** | 91 | 53 | 21 | 144 |
| **Profit for the year** | **3,758** | 2,921 | 3,720 | 2,066 | 1,965 |

The improved result in 2014 was influenced by an increase in net rental income of £341,000, an increase in net realised gains on investment property of £522,000, an increase in dividend revenue of £203,000 and offset by increases in administration expenses of £87,000 and finance expenses of £116,000.

## Financial performance – capital activities

A summary of our investments is laid out on pages 2 and 3 and of our capital performance by portfolio on pages 8 to 12.

## Financial performance – cashflow

Our cashflow in the year can be summarised as:

| | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Opening cash | **3,128** | 3,274 | 1,926 | 2,472 | 946 |
| Net cash from operating activites | **2,910** | 2,414 | 2,397 | 1,212 | 1,826 |
| Investment acquisitions – property | **(6,084)** | (8,488) | (4,827) | (2,871) | (1,558) |
| Investment acquisitions – equities | **(649)** | (125) | (540) | (423) | (1,028) |
| Investment disposals – property | **3,548** | 2,340 | 4,972 | 2,796 | 355 |
| Investment disposals – equities | **969** | 1,382 | 922 | 243 | 3,326 |
| Dividend paid | **(1,783)** | (1,669) | (1,576) | (1,503) | (1,395) |
| Medium term loan | **–** | 4,000 | – | – | – |
| Closing cash | **2,039** | 3,128 | 3,274 | 1,926 | 2,472 |

It is the directors' intention to reinvest surplus cash into the commercial property portfolio when suitable opportunities arise.

## Other matters

The group's policies on environmental and social responsibility matters are set out on page 26 of this report.

## Summary of performance

We are pleased with the results for the year and remain optimistic that we start 2015 from a position of strength which we hope to build upon. We have set ourselves some challenging objectives for 2015 and we hope that our actions will continue to improve shareholder value via improved dividend streams and asset values.

Approved by the board and signed on its behalf.

JS Hewitt

**John Hewitt**
Chairman
25 March 2015

# Chairman's introduction to corporate governance

**John Hewitt**
Chairman

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

Welcome to the 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 core values and we strive to follow the appropriate guidance and rules insofar as they are practicable for a business of our size and 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 these protocols.

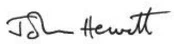
Our strategy is set out on page 4. All the board support this strategy and ensure that any matters that it approves are in line with this strategy.

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 one exception (2013 two exceptions), which is reported on page 17 and related to the composition of the audit comittee, 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. During the year we have had regular contact with our key shareholders. We have also, as a consequence of a change to the Listing Rules in May 2014, entered into a Controlling Shareholder Agreement ("CSA") with the Kingerlee Concert Party as we were required to do. The Kingerlee Concert Party falls within the definition of a 'controlling shareholder' as it owns in excess of 30% of the share capital of the company. We look forward to welcoming many of our shareholders to our annual general meeting ("AGM") on 15 May.

This governance report on pages 14 to 27 highlights our compliance with the UK Corporate Governance 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 the provisions of the UK Corporate Governance Code as is appropriate.



**John Hewitt**
Chairman

# Board of directors





## 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.

## Simon Gill

Chief executive

**Appointment to the board**
Simon joined the group as property director in April 2013 and 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.

## 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 was also chairman of Kingerlee Limited until September 2014 and is 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.

## 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 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.

## Richard Stansfield

(until 15 May 2015)

Non-executive director and senior independent director

**Appointment to the board**
Richard joined the group as an independent non-executive director in December 2002. Richard has resigned from the board with effect from 15 May 2015.

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

**Other appointments**
Richard was Property Director of Jesus College Oxford until August 2014. He was 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.

# Corporate governance

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

- **Approving objectives, strategy and policies**
- **Business planning**
- **Review of performance**
- **Risk assessment**
- **Dividends**
- **Appointment of board members and key advisers**

The board has 3 sub-committees comprised 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. It is intended that the terms of reference of these committees will be made available on the group's website during 2015.

## 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 board 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.

## Senior independent director

The Code recommends that the board appoints one of the independent non-executive directors as senior independent director ("SID"). The SID is available to shareholders if they have concerns and also provides a sounding board for the chairman, reviews the performance of the chairman and serves as an intermediary for other directors when necessary. Richard Stansfield currently fills this role.

## Independent 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. 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 as objective, constructive challengers to the executive board.

## Board committees

### Executive committee

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

### Remuneration committee

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

### Nomination committee

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

The key roles and responsibilities of the audit, remuneration and nomination committees are set out in the reports on pages 18 to 21.

## 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:

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 this non-compliance as part of its annual compliance review to ensure that no further actions are required.

This non-compliance is being taken into account by the nomination committee in its search for a new senior independent director.

## Board effectiveness

The board meets at least 6 times per year and has a schedule of matters specifically reserved for its decision including approval of: strategy, all capital transactions, issue of shares, documents to shareholders including annual report and accounts, stock exchange announcements, dividends, board membership and remuneration and related party transactions. It also approves the terms of reference of all sub-committees and conducts an annual evaluation of the board.

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 2014 the board conducted a self-performance evaluation by way of a questionnaire designed to assess the strength of the board and its committees and also 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 included on the company's website after the meeting. The company has no institutional shareholders but has continued a programme of meetings with key shareholders, subject to regulatory constraints and the board is provided with feedback from these meetings.

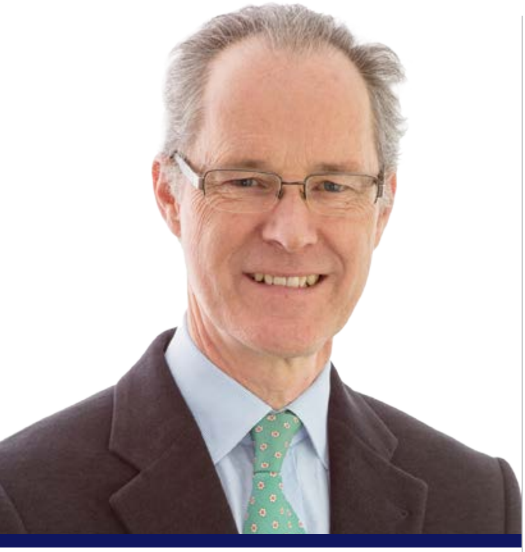
Shareholders who wish to communicate with the board should contact the company secretary in the first instance via our website www.highcroftplc.com.

In May 2014 the Listing Rules were updated to include a requirement for all premium listed companies who have a controlling shareholder to enter into a relationship (or controlling shareholder) agreement. The company entered into such an agreement on 13 November 2014 with the Kingerlee Concert Party. More detail is included on page 26.

**During 2014 the number of board and non-executive committee meetings and individual participation was as follows:**

| | Board | Audit | Remuneration | Nomination |
|---|---|---|---|---|
| **Number of meetings** | **6** | **3** | **2** | **1** |
| John Hewitt | 6 | 3 | 2 | 1 |
| Richard Stansfield | 6 | 3 | 2 | 1 |
| Simon Gill | 6 | N/A | N/A | N/A |
| Roberta Miles | 6 | 3 (part) | N/A | N/A |
| David Kingerlee | 6 | N/A | N/A | N/A |

# Audit committee report



**Richard Stansfield**
Chairman of the audit committee

*"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."*

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. I am resigning from the board with effect from the 2015 AGM, and we are currently recruiting a new senior independent director who will also chair this committee. 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 nomination committee is taking this non-compliance into account in its recruitment of a new senior independent director. The committee meets regularly during the year, in line with the financial reporting timetable and in 2014 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 2014 continue to be the valuation of our property and investment portfolios and the changing financial reporting requirements relating, in particular, to corporate governance. It considers the valuation process, including the submission of the data by management, the comparable data provided by the valuer and the assumptions used by the valuer. The valuation reports are reviewed and, if necessary, key judgements and assumptions are challenged.

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. 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. The committee also considered the annual report and accounts on behalf of the board and made a recommendation to the board that it resolve that they were fair, balanced and understandable and provided the information necessary for shareholders to assess the group's performance. 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 to regulators. The responsibilities of the directors as regards the financial statements are described on page 27, and that of the auditor on pages 28 and 47.

**External auditor.** The audit committee reviews the terms of engagement with the external auditor annually and ensures that the external auditor is independent. It has received and reviewed written disclosures from the auditor regarding independence. The auditor, with effect from 1 January 2014, provides tax advisory services to the group. The committee ensures that the tax work is carried out by a separate office and by a team that is independent of the audit team. During the financial year Grant Thornton was engaged in non-audit services, giving rise to fees of £13,000. The audit fee is £21,000.

In order to ensure that the external audit is as effective as possible the auditors must identify the appropriate risks as part of their planning process. For this financial year Grant Thornton submitted a detailed audit plan at the planning audit committee meeting which outlined key risks (including the valuation of investment property and equities, risk of revenue misstatement due to the inclusion of fraudulent transactions, creditor understatement, areas of accounting capable of manipulation and compliance with REIT criteria). The directors are satisfied that the risks identified by the auditors are consistent with those identified internally. At each audit committee meeting the committee reserves time for a meeting without executive management being present. We discuss matters including; the quality of the information provided to the auditors by executives, confirmation that the auditors have not been restricted in their audit process and a discussion of any areas where they have had to use their professional scepticism.

The audit committee reviews the 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 external auditor is required to rotate the group audit partner every five years and this is changing for the 2015 financial year. In particular they have decided that the appointment of Grant Thornton as tax advisers does not compromise their independence. The group has not performed a formal tender process for in excess of 10 years. The committee has however referenced audit fees with similar auditors and considered whether or not the audit should be put out to tender. The committee will review this matter again during 2015.

**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 to authorise share purchases and sales on a regular basis
- 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 6 and 7.

**Financial reporting.** The committee has considered the internal control and risk management systems in relation to the financial reporting process and considered them adequate. These include: suitably qualified staff preparing the documents, information being prepared in good time to allow adequate internal review and audit processes to take place and a review with the auditors prior to the release of financial results.

**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. The board reviews this position annually.

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

RNStansfield

**Richard Stansfield**
Chairman of the audit comittee

# Report of the nomination committee

**John Hewitt**
Chairman of the nomination committee

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 consider succession planning in the medium term. There were no appointments or resignations during the year.

We considered the diversity of the board during the year, in line with best practice developing in the market place.

**John Hewitt**
Chairman of the nomination committee

# Directors' remuneration report

**Richard Stansfield**
Chairman of the remuneration committee

*"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"). An ordinary resolution for the approval of this report 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 28 to 30 and 47"*

## Annual statement

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

### Membership of the committee

My fellow member of the committee is John Hewitt. We are both non-executive directors. The board has considered our independence and the fact that John Hewitt has a shareholding of 0.37% of the company and has served as a director for 15 years and that I have served as a director for 12 years. The board has concluded that we are both 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. I am resigning from the board with effect from the 2015 AGM, and we are currently recruiting a new senior independent director who will also chair this committee.

### 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 has therefore, as agreed by shareholders at the 2014 AGM, given consideration to aligning the interests of all of the executive directors more closely with those of the shareholders. The executive directors' remuneration packages now contain one element that is performance related and this comprises a significant proportion of the remuneration package of the related directors. 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:

- Agree the performance-related pay scheme for executive directors. It was agreed that in the first year this would take the form of a discretionary bonus that was calculated with reference to both group and individual performance during the year. John Hewitt led this process due to his previous experience in this area. Consideration was given to the use of external independent remuneration consultants but this was decided not to be cost-effective.
- Begin the review of the level of directors' fees for 2015. It 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 2015, in line with the All Items Retail Prices Index, which at November 2014 was 2%. In addition the executives' salaries were benchmarked and additional increases were proposed and confirmed in January 2015. It was also proposed that Roberta Miles move onto a fixed salary from 1 January 2015.

## 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. The remuneration packages of all directors are reviewed annually.

# Directors' remuneration report continued

## 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 in 2014, 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.** As was stated in the 2013 remuneration policy a performance-related pay scheme has been introduced in 2014 for the executive directors whereby a bonus is available for superior performance. The cap on the bonus is 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, which was effective from 1 January 2014, was approved by the shareholders at the 2014 AGM and, 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. During 2014 the committee has introduced an element of performance-related pay into the packages of the executive directors in line with this policy.

## Components of total reward

During the year the directors were only entitled to a base salary and a discretionary bonus. They are not eligible to receive pension entitlements, or any other benefits.

The directors are not entitled to participate in any long term incentive plan or share option scheme. All base salaries are paid on a monthly basis and are not performance related. Roberta Miles' contract included a clause that enabled her to be paid additional salary for days worked above a fixed level in 2014 but this has been changed with effect from 1 January 2015. 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 and with no provision for compensation payments on termination. All directors retire and are subject to election at the first AGM 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. John Hewitt has served for more than nine years and his re-election is proposed at each AGM. Richard Stansfield has given notice of his resignation from the board with effect from the 2015 AGM.

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 2014 | 15 May 2015 |
| **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 2015 AGM.
^ Due date for re-election 2016 AGM.

### Future policy

It is intended that future remuneration policy will remain consistent with the current policy. The existing cap on performance related pay of 10% of amounts paid to shareholders in the year will remain and a more detailed framework will be developed to assess performance. It is intended that any new directors would be paid in accordance with our remuneration policy and would, if applicable, participate in variable remuneration arrangements on the same basis as executive directors

### Consideration of shareholder views

During the year a member of the remuneration committee engages with key shareholders to ensure that their views are understood when considering remuneration policy.

## Annual remuneration report

### Relative importance of spend on pay

The directors are the only employees of the group other than one part-time book-keeper.

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Directors' remuneration | **275** | 171 | 141 |
| Distributions paid to shareholders | **1,783** | 1,669 | 1,576 |
| Directors' remuneration as a percentage of distributions paid to shareholders | **15.4%** | 10.2% | 8.9% |

### Remuneration of the directors undertaking the role of chief executive ("CEO")

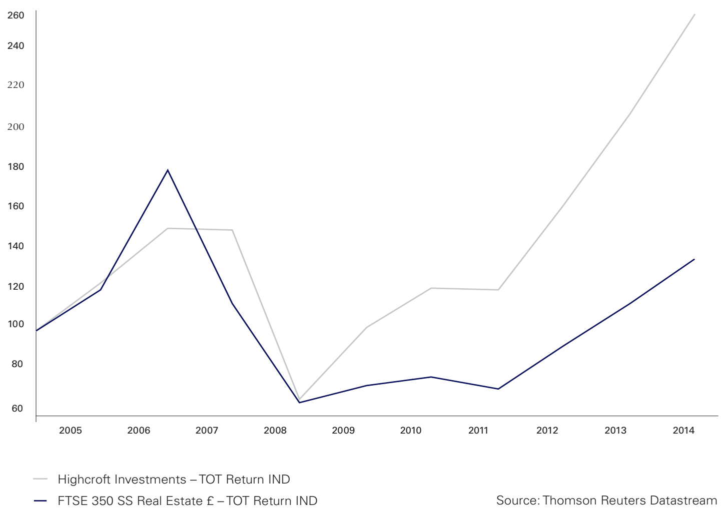
The table below shows the total remuneration of Simon Gill (from 31 July 2013) and Jonathan Kingerlee (until 31 July 2013) in respect of their role as CEO.

| | **2014 £'000** | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 |
|---|---|---|---|---|---|---|
| Simon Gill | **111** | 21 | – | – | – | – |
| Jonathan Kingerlee | **–** | 20 | 35 | 35 | 34 | 34 |
| | **111** | 41 | 35 | 35 | 34 | 34 |
| Percentage change in total remuneration of CEO | **171%** | 17% | – | 3% | – | 8% |

### Company performance

The Board is responsible for the group'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.

Total Shareholder Return performance graph



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# Directors' remuneration report continued

## Statement of implementation of remuneration policy in the next financial year

The group does not intend to make any significant changes to the remuneration policy during 2015. Base salaries have been reviewed in accordance with the policy. Neither benefits nor pensions will be paid in 2015 as laid out in the policy. During 2015 it is intended to develop further the guidelines related to the discretionary bonus scheme.

## Directors' remuneration (audited)

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Base salary £** | **Discretionary bonus £** | **Total £** | Base salary £ | Discretionary bonus £ | Total £ |
| John Hewitt | **22,400** | **–** | **22,400** | 15,292 | – | 15,292 |
| Richard Stansfield | **16,200** | **–** | **16,200** | 15,750 | – | 15,750 |
| Simon Gill (appointed 1 April 2013) | **51,400** | **60,000** | **111,400** | 37,500 | – | 37,500 |
| David Kingerlee | **23,150** | **17,500** | **40,650** | 22,500 | – | 22,500 |
| Roberta Miles | **56,943** | **27,500** | **84,443** | 59,427 | – | 59,427 |
| Jonathan Kingerlee (resigned 31 July 2013) | **–** | **–** | **–** | 20,271 | – | 20,271 |
| | **170,093** | **105,000** | **275,093** | 170,740 | – | 170,740 |

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

The annual discretionary bonus for the financial year was based on personal performance and on the achievement of the group's strategic objectives in the context of the performance of the market as a whole, and the upper limit approved by shareholders in the remuneration policy of 10% of distributions paid to shareholders in the year. The total discretionary bonus of £105,000 represents 5.9% of distributions paid to shareholders in 2014.

## 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 2014 and at 31 December 2014 were as follows:

| | **31 December 2014** | | 1 January 2014 | |
|---|---|---|---|---|
| | **Beneficial** | **Non-beneficial** | Beneficial | Non-beneficial |
| John Hewitt | **18,985** | **–** | 15,985 | – |
| Simon Gill (appointed 1 April 2013) | **–** | **–** | – | – |
| Ricahrd Stansfield | **–** | **–** | – | – |
| Roberta Miles | **2,700** | **–** | 2,250 | – |
| David Kingerlee | **88,470** | **77,780** | 88,470 | 77,780 |

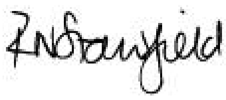
There have been no changes in the holdings between 1 January 2015 and 25 March 2015.

## Statement of shareholder voting

At the annual general meeting in 2014 the directors remuneration policy and remuneration report received the following voting from shareholders:

| | Remuneration report | | Remuneration policy | |
|---|---|---|---|---|
| Votes cast in favour | 2,937,971 | 99.97% | 2,936,971 | 99.97% |
| Votes cast against | 1,000 | 0.03% | 1,000 | 0.03% |
| Total votes cast | 2,938,971 | 100.00% | 2,937,971 | 100.00% |
| Votes withheld | | – | 1,000 | – |

Approved by the board of directors and signed by



**Richard Stansfield**
Chairman of the remuneration committee
25 March 2015

# Directors' report

The corporate governance report on pages 14 to 24 forms part of the report of the directors

## Directors

The directors listed on page 15 constituted the board during the year. The interests of the directors in the shares of the company are included in the remuneration report on page 24.

In accordance with the company's articles of association Simon Gill and David Kingerlee retire by rotation and, being eligible, offer themselves for re-election. In addition John Hewitt, having served more than nine years on the board, submits himself for re-election.

The board confirms that following performance evaluations, the performance of each director seeking re-election continues to be effective and that they demonstrate commitment to their role, and that John Hewitt is 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 2014 and 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 25 March 2015 the following notifications of interests in three per cent 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 | | 21.05% | 1,055,067 | – |
| Controlling shareholder - Kingerlee concert party comprised of: | | 42.00% | 2,170,019 | – |
| – the wholly owned subsidiaries of Kingerlee Holdings Limited: | | | | |
| Kingerlee Limited | 9.97% | | 515,000 | – |
| Kingerlee Homes Limited | 7.70% | | 397,673 | – |
| T H Kingerlee & Sons Limited and | 9.58% | | 494,770 | |
| Total | | 27.25% | | |
| – other associates | | 14.75% | 762,576 | – |

# Directors’ report continued

The corporate governance report on pages 14 to 24 forms part of the report of the directors

On May 16 2014 The Financial Conduct Authority (“FCA”) announced the commencement of new rules which provide protections for the minority shareholders of a premium listed company in which there is a controlling shareholder (defined by the FCA as “any person who exercises or controls, on their own or together with any other person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings or the company”). The directors are aware that the shareholdings of Kingerlee Holdings and its subsidiaries referred to in the above table together with their connected parties and associates form the Kingerlee Concert Party which, as at 25 March 2015, held 2,170,019 ordinary shares, representing 42% of the company’s issued share capital. The persons comprising the Kingerlee Concert Party were confirmed by the Takeover Panel in 1999. The company can confirm that, in accordance with these new rules:

- it entered into a controlling shareholder agreement (“CSA”) with the Kingerlee Concert Party on 13 November 2014
- the company has complied with the independence provisions in the CSA from 13 November 2014 until 31 December 2014 (“the period”)
- so far as the company is aware, the independence provisons in the CSA have been complied with by the controlling shareholder and its associates in the period
- so far as the company is aware, the procurement obligation in the CSA has been complied with by the controlling shareholder in the period.

The CSA contains undertakings that *inter alia*:

- transactions and relationships with the controlling shareholder (and/ or any of its associates) will be conducted at arm’s length and on normal commercial terms
- neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the company or any member of its group from complying with its obligations under the Listing Rules
- neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The directors have put in place measures to ensure that the election or re-election of any independent non-executive director should be approved by an ordinary resolution of the shareholders and separately approved by those shareholders who are not controlling shareholders, the independent shareholders.

## Going concern

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

Given the continuing economic uncertainties, the directors are aware of the general concern affecting the assessment of the going concern basis for all businesses and have therefore taken particular care in reviewing the going concern basis this year. The group has fixed term non-amortising borrowing 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. We have obtained energy performance certificates (“EPCs”) for most of our portfolio and are taking these results into account when planning any required works.

## Financial risk management policies

Information regarding our exposure to, and management of, financial risks is in note 18 to the consolidated financial statements.

## 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.

## 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 AGM to be held on 15 May 2015.

This report was approved by the board on 25 March 2015

**Roberta Miles**
Company Secretary
25 March 2015

# Statement of directors' responsibilities

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

The directors are responsible for preparing the annual report, remuneration 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 including the strategic 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
25 March 2015

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# Independent auditor's report

to the members of Highcroft Investments PLC

## Our opinion on the group financial statements is unmodified

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("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 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.

### What we have audited

Highcroft Investments PLC group financial statements 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 IFRSs as adopted by the European Union.

### 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 risk: The group has a significant property portfolio classified as investment properties 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.

Our response: 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 valuers, including inquiries of the valuers and an assessment of whether their work was suitable for the purpose of our audit. We agreed key assumptions such as forecasts for market yield, return on investment percentages and market growth, to publicly available third party analyst data and tested a sample of individual valuations to recent comparable market transactions obtained from a search of publicly available third party data. We also agreed a sample of property additions and disposals in the period to third party documentation.

The groups disclosures in respect of investment property are included in note 8.

### Management override of financial control

The risk: Under International Standards on Auditing ("ISAs") (UK and 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 response: Our audit work included, but was not restricted to, specific procedures relating to this risk that are required by ISA (UK and Ireland) 240 "The auditors responsibilities relating to fraud in an audit of financial statements." This included testing a sample of journal entries through to supporting documentation, the evaluation of judgements and assumptions in managements estimates via retrospective review of prior year estimates and judgements to current year transactions and comparison of current year estimates and judgements to available market data, and tests of significant transactions outside the normal course of business identified during completion of the audit, of which none were identified in the current year.

In particular, our work on investment property valuations addressed key aspects of ISA (UK and Ireland) 240.

## Our application of materiality and an overview of the scope of our audit

### 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 group 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 £268,000, which is 0.5% of the group's total assets. This benchmark is considered the most appropriate because we consider group total assets to be the groups key performance measure and the company's profits are driven by this. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements.

For the consolidated statement of comprehensive income we determined that misstatements of lesser amounts than materiality for the group 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 £185,000. We also determined a specific materiality for other areas such as directors remuneration and related party transactions.

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

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £11,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### Overview of the scope of our audit

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with the Auditing Practices Boards Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

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 groups 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 providers, including the effect on the groups internal controls. We undertook substantive testing on significant transactions, account 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.

## Other reporting required by regulations

### Our opinion on other matter prescribed by the Companies Act 2006 is unmodified

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 the Director's 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 group 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 otherwise misleading.

In particular, we are required to report to you if:

- 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; or

# Independent auditor’s report continued

to the members of Highcroft Investments PLC

- the annual report does not appropriately disclose 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:

- 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

Under the Listing Rules we are required to review:

- the directors statement, set out on page 26, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company’s compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

## Responsibilities for the financial statements and the audit

What an audit of financial statements involves:

A description of the scope of an audit of financial statements is provided on the Financial Reporting Councils website at www.frc.org.uk/auditscopeukprivate.

What the directors are responsible for:

As explained more fully in the Directors Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

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.

Who we are reporting to:

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.

**Nicholas Watson**
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants
Oxford
25 March 2015

# Consolidated statement of comprehensive income

for the year ended 31 December 2014

| | Note | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|---|
| Gross rental revenue | | **3,079** | **–** | **3,079** | 2,731 | – | 2,731 |
| Property operating expenses | 8 | **(158)** | **–** | **(158)** | (151) | – | (151) |
| **Net rental income** | | **2,921** | **–** | **2,921** | 2,580 | – | 2,580 |
| Realised gains on investment property | | **941** | **–** | **941** | 415 | – | 415 |
| Realised losses on investment property | | **(4)** | **–** | **(4)** | – | – | – |
| **Net gains on investment property** | | **937** | **–** | **937** | 415 | – | 415 |
| Valuation gains on investment property | | **–** | **3,785** | **3,785** | – | 1,833 | 1,833 |
| Valuation losses on investment property | | **–** | **(150)** | **(150)** | – | (590) | (590) |
| **Net valuation gains on investment property** | 8 | **–** | **3,635** | **3,635** | – | 1,243 | 1,243 |
| Dividend revenue | | **437** | **–** | **437** | 234 | – | 234 |
| Gains on equity investments | 9 | **–** | **231** | **231** | – | 832 | 832 |
| Losses on equity investments | 9 | **–** | **(606)** | **(606)** | – | (63) | (63) |
| **Net investment income/(expense)** | | **437** | **(375)** | **62** | 234 | 769 | 1,003 |
| Administration expenses | 3 | **(432)** | **–** | **(432)** | (345) | – | (345) |
| **Net operating profit before net finance income** | | **3,863** | **3,260** | **7,123** | 2,884 | 2,012 | 4,896 |
| Finance income | | **8** | **–** | **8** | 7 | – | 7 |
| Finance expense | | **(178)** | **–** | **(178)** | (61) | – | (61) |
| **Net finance expense** | | **(170)** | **–** | **(170)** | (54) | – | (54) |
| **Profit before tax** | | **3,693** | **3,260** | **6,953** | 2,830 | 2,012 | 4,842 |
| Income tax credit/(expense) | 5 | **65** | **39** | **104** | 91 | (77) | 14 |
| **Total profit and comprehensive income for the year attributable to the owners of the parent** | | **3,758** | **3,299** | **7,057** | 2,921 | 1,935 | 4,856 |
| Basic and diluted earnings per share | 7 | **72.7p** | **63.8p** | **136.5p** | 56.5p | 37.5p | 94.0p |

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

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

# Consolidated statement of financial position

at 31 December 2014

| | Note | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investment property | 8 | **46,523** | 39,415 | 31,609 |
| Equity investments | 9 | **4,532** | 5,227 | 5,713 |
| **Total non-current assets** | | **51,055** | 44,642 | 37,322 |
| **Current assets** | | | | |
| Trade and other receivables | 10 | **415** | 422 | 254 |
| Cash and cash equivalents | | **2,039** | 3,128 | 3,274 |
| **Total current assets** | | **2,454** | 3,550 | 3,528 |
| **Total assets** | | **53,509** | 48,192 | 40,850 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 11 | **1,312** | 1,160 | 1,000 |
| **Total current liabilities** | | **1,312** | 1,160 | 1,000 |
| **Non-current liabilities** | | | | |
| Interest bearing loan | 12 | **4,000** | 4,000 | – |
| Deferred tax liabilities | 13 | **495** | 604 | 609 |
| **Total non-current liabilities** | | **4,495** | 4,604 | 609 |
| **Total liabilities** | | **5,807** | 5,764 | 1,609 |
| **Net assets** | | **47,702** | 42,428 | 39,241 |
| **Equity** | | | | |
| Issued share capital | 14 | **1,292** | 1,292 | 1,292 |
| Revaluation reserve – property | | **11,332** | 7,353 | 7,050 |
| – other | | **1,335** | 1,972 | 1,746 |
| Capital redemption reserve | | **95** | 95 | 95 |
| Realised capital reserve | | **24,785** | 24,220 | 22,366 |
| Retained earnings | | **8,863** | 7,496 | 6,692 |
| **Total equity attributable to the owners of the parent** | | **47,702** | 42,428 | 39,241 |

These financial statements were approved by the board of directors on 25 March 2015.

**John Hewitt**
**Simon Gill**
Directors

Company number – 00224271

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

# Consolidated statement of changes in equity

| 2014 | 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 2014 | 1,292 | 7,353 | 1,972 | 95 | 24,220 | 7,496 | 42,428 |
| Dividends | – | – | – | – | – | (1,783) | (1,783) |
| Reserve transfers: | | | | | | | |
| Non-distributable items recognised in income statement: | | | | | | | |
| Revaluation gains | – | 3,635 | (65) | – | – | (3,570) | – |
| Tax on revaluation gains/(losses) | – | – | (7) | – | – | 7 | – |
| Realised gains | – | – | – | – | 756 | (756) | – |
| Loss/(surplus) attributable to assets sold in the year | – | 756 | (565) | – | (191) | – | – |
| Excess of cost over revalued amount taken to retained earnings | – | (412) | – | – | – | 412 | – |
| Transactions with owners | – | 3,979 | (637) | – | 565 | (5,690) | (1,783) |
| Profit and total comprehensive income for the year | – | – | – | – | – | 7,057 | 7,057 |
| **At 31 December 2014** | **1,292** | **11,332** | **1,335** | **95** | **24,785** | **8,863** | **47,702** |

| 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 losses | – | 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 |

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 2014

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Operating activities** | | |
| Profit for the year | **7,057** | 4,856 |
| Adjustments for: | | |
| Net valuation gains on investment property | **(3,635)** | (1,243) |
| Net gain on disposal of investment property | **(937)** | (415) |
| Net loss/(gain) on investments | **375** | (769) |
| Finance income | **(8)** | (7) |
| Finance expense | **178** | 61 |
| Income tax credit | **(104)** | (14) |
| **Operating cash flow before changes in working capital and provisions** | **2,926** | 2,469 |
| Decrease/(increase) in trade and other receivables | **7** | (168) |
| Increase in trade and other payables | **152** | 126 |
| **Cash generated from operations** | **3,085** | 2,427 |
| Finance income | **8** | 7 |
| Finance expense | **(178)** | (27) |
| Income taxes (paid)/received | **(5)** | 7 |
| **Net cash flows from operating activities** | **2,910** | 2,414 |
| **Investing activities** | | |
| Purchase of non-current assets – investment property | **(6,084)** | (8,488) |
| – equity investments | **(649)** | (125) |
| Sale of non-current assets – investment property | **3,548** | 2,340 |
| – equity investments | **969** | 1,382 |
| **Net cash flows from investing activities** | **(2,216)** | (4,891) |
| **Financing activities** | | |
| Dividends paid | **(1,783)** | (1,669) |
| New bank borrowings | **–** | 4,000 |
| **Net cash flows from financing activities** | **(1,783)** | 2,331 |
| Net decrease in cash and cash equivalents | **(1,089)** | (146) |
| Cash and cash equivalents at 1 January 2014 | **3,128** | 3,274 |
| **Cash and cash equivalents at 31 December 2014** | **2,039** | 3,128 |

# Notes to the consolidated financial statements

for the year ended 31 December 2014

## 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 2014 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 estimate and 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. Estimates and judgements are continually evaluated and are based on historical information of the group, the best judgement of the directors and are adjusted for current market conditions. In the process of applying the group's accounting policies, management is of the opinion that any instances of the application of judgements did not have a significant effect on the amounts recognised in the financial statements.

### 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 2014 and adopted for the first time with no impact on these financial statements.

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

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

The following amendments to, or interpretations of, existing standards that have been published and are mandatory for the group's future accounting periods beginning on or after 1 January 2015 are:

- IFRS 9 Financial Instruments (effective 1 January 2018)

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

### 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 2014, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

# Notes to the consolidated financial statements continued
for the year ended 31 December 2014

## 1 Significant accounting policies continued

### Rental revenue as a lessor

Investment properties are leased to tenants under operating leases. The rental income receivable under these leases is recognised in the statement of comprehensive income 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 statement of comprehensive income 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.

### Finance costs

Interest is recognised using the effective interest method which calculates the amortised cost of a financial liability and allocates the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount of the financial liability.

### Expenses

All expenses are recognised in the statement of comprehensive income 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 date of the statement of financial position.

## 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 statement of comprehensive income.

### 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 receivables carrying amount is believed to exceed the present value of the future cash flows. 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 with an original maturity of less than three months.

### Financial liabilities

The group's financial liabilities include trade and other payables and borrowings. Trade payables and borrowings are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method ("EIR" method). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The amortisation is included in finance costs in the statement of comprehensive income. Loans and borrowings are classified as current liabilities unless the group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### 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: commercial property, residential property and financial assets. 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 consolidated financial statements continued

for the year ended 31 December 2014

## 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 in England and Wales
- Residential property comprising single-let houses and flats in England
- Financial assets comprising exchange-traded equity investments

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| **Commercial property** | | |
| Gross income | **3,044** | 2,691 |
| Profit for the year | **6,787** | 3,633 |
| Assets | **47,622** | 41,397 |
| Liabilities | **5,164** | 5,013 |
| **Residential property** | | |
| Gross income | **35** | 40 |
| Profit for the year | **161** | 236 |
| Assets | **1,308** | 1,482 |
| Liabilities | **–** | – |
| **Financial assets** | | |
| Gross income | **437** | 233 |
| Profit for the year | **109** | 987 |
| Assets | **4,579** | 5,313 |
| Liabilities | **643** | 751 |
| **Total** | | |
| Gross rental and dividend income | **3,516** | 2,964 |
| Profit for the year | **7,057** | 4,856 |
| Assets | **53,509** | 48,192 |
| Liabilities | **5,807** | 5,764 |

In 2014 and in 2013 the largest tenant represented 12% and the second largest represented 10% (2013 11%) of gross commercial property income for the year.

## 3 Administrative expenses

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Directors (note 4) | **306** | 188 |
| Auditor's fees | | |
| Fees payable to the company's auditor for the audit of the company's annual accounts | **21** | 21 |
| Fees payable to the company's auditor for other services: | | |
| Taxation | **12** | 12 |
| Other services | **1** | 1 |
| Other expenses | **92** | 135 |
| | **432** | 345 |

## 4 Directors

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Remuneration in respect of directors was as follows: | | |
| Remuneration | **275** | 171 |
| Social security costs | **31** | 17 |
| | **306** | 188 |

The average number of employees, all of whom were directors, of the group during the year was 5 (2013 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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Current tax: | | |
| On revenue profits | **(65)** | (82) |
| On capital profits | **(51)** | 34 |
| Prior year underprovision/(overprovision) on capital profits | **5** | (9) |
| | **(111)** | (57) |
| Deferred tax (note 13) | **7** | 43 |
| Income tax credit | **(104)** | (14) |

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.5% (2013 23.25%).

The differences are explained as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Profit before tax | **6,953** | 4,842 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 23.25%) | **1,495** | 1,126 |
| Effect of: | | |
| Tax exempt revenues | **(64)** | (199) |
| Profit not taxable as a result of REIT status | **(1,611)** | (985) |
| Chargeable gains less than accounting profit | **116** | 48 |
| Losses carried forward | **(36)** | 12 |
| Effect of change in tax rate on deferred tax liability | **(9)** | (7) |
| Adjustments to tax charge in respect of prior periods | **5** | (9) |
| Income tax credit | **(104)** | (14) |

# Notes to the consolidated financial statements continued

for the year ended 31 December 2014

## 6 Dividends

In 2014 the following dividends have been paid by the company:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| 2013 Final: 21.25p per ordinary share (2012 19.8p) | **1,098** | 1,023 |
| 2014 Interim: 13.25p per ordinary share (2013 12.5p) | **685** | 646 |
| | **1,783** | 1,669 |

On 25 March 2015 the directors declared a property income distribution of £1,176,000, 22.75p per share (2013 £1,098,000, 19.8p per share) payable on 5 June 2015 to shareholders registered at 8 May 2015.

## 7 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £7,057,000 (2013 £4,856,000) and on 5,167,240 shares (2013 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2014 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 statement of comprehensive income 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 £3,758,000 (2013 £2,921,000) has been calculated.

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Earnings: | | |
| Basic profit for the year | **7,057** | 4,856 |
| Adjustments for: | | |
| Net valuation gains on investment property | **(3,635)** | (1,243) |
| Losses/(gains) on investments | **375** | (769) |
| Income tax on (losses)/gains | **(39)** | 77 |
| Adjusted earnings | **3,758** | 2,921 |
| Per share amount: | | |
| Earnings per share (unadjusted) | **136.5p** | 94.0p |
| Adjustments for: | | |
| Net valuation gains on investment property | **(70.3p)** | (24.1p) |
| Losses/(gains) on investments | **7.2p** | (14.9p) |
| Income tax on (losses)/gains | **(0.7p)** | 1.5p |
| Adjusted earnings per share | **72.7p** | 56.5p |

## 8 Investment property

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Valuation at 1 January | **39,415** | 31,609 | 30,787 |
| Additions | **6,084** | 8,488 | 4,827 |
| Disposals | **(2,611)** | (1,925) | (3,419) |
| Revaluation gains/(losses) | **3,635** | 1,243 | (586) |
| Valuation at 31 December | **46,523** | 39,415 | 31,609 |

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 2014, 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.

## 8 Investment property continued

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 2014 one investment property with a carrying amount of £1,350,000 (2013 £1,400,000) is charged to Lloyds Bank plc to provide security for any future borrowings. In addition two investment properties with a carrying amount of £9,325,000 (2013 two properties with a valuation of £8,800,000) are charged to Svenska Handelsbanken AB (publ) to secure the group's medium term loans.

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

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Less than one year | **2,810** | 2,764 | 2,251 |
| Between one and five years | **10,318** | 8,312 | 7,231 |
| More than five years | **13,956** | 13,819 | 11,235 |
| | **27,084** | 24,895 | 20,717 |

Property operating expenses are analysed as follows:

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Arising from generating rental income | **158** | 151 | 181 |
| Not arising from generating rental income | **–** | – | 3 |
| | **158** | 151 | 184 |

## 9 Equity investments

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Valuation at 1 January | **5,227** | 5,713 | 5,598 |
| Additions | **649** | 127 | 540 |
| Disposals | **(1,205)** | (1,236) | (849) |
| (Deficit)/surplus on revaluation in excess of cost | **(65)** | 610 | 416 |
| Revaluation decrease below cost | **(76)** | (4) | (17) |
| Revaluation increase still less than cost | **2** | 17 | 25 |
| Valuation at 31 December | **4,532** | 5,227 | 5,713 |

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

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Realised gains on equity investments | **14** | 179 | 79 |
| Revaluation gains on equity investments | **217** | 653 | 598 |
| | **231** | 832 | 677 |

| | **2014 £'000** | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Realised losses on equity investments | **250** | 33 | 5 |
| Revaluation losses on equity investments | **356** | 30 | 174 |
| | **606** | 63 | 179 |

# Notes to the consolidated financial statements continued

for the year ended 31 December 2014

## 10 Trade and other receivables

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Trade receivables | **18** | 141 | 63 |
| Bad debt provision | **–** | – | (2) |
| Net trade receivables | **18** | 141 | 61 |
| Debtor arising from IFRS treatment of rent-free periods | **365** | 271 | 119 |
| Other receivables | **32** | 10 | 74 |
| | **415** | 422 | 254 |

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 2014 amounts due from tenants which were more than 90 days overdue, which related to rents for 2014 or earlier, totalled £nil (2013 £nil). Provisions against these overdue amounts totalled £nil at the beginning of the year (2013 £nil).

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 remaining lease terms. During the year £1,000 of the balance at 31 December 2013 (2013 £27,000) was written off to commercial rental income as a property was disposed of.

## 11 Trade and other payables

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Deferred income | **683** | 661 | 556 |
| Social security and other taxes | **288** | 238 | 226 |
| Other payables | **341** | 261 | 218 |
| | **1,312** | 1,160 | 1,000 |

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

## 12 Interest bearing loan

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Medium term bank loans | **4,000** | 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 | – |
| | **4,000** | 4,000 | – |

The average effective interest rate is 4.45%.

## 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 20% (2013 21%).

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| At 1 January | **604** | 609 | 624 |
| Realised in the year | **(116)** | (48) | (35) |
| Provided in the year | **7** | 43 | 20 |
| At 31 December | **495** | 604 | 609 |

## 14 Share capital

| | 2014 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Allotted, called up and fully paid 5,167,240 (2013 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 2014 (2013 £4,000,000). 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 2014 or at 31 December 2013.

## 16 Contingent liabilities

There were no contingent liabilities at 31 December 2014 or at 31 December 2013.

## 17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2013 25.5%) of the company's shares and David Kingerlee is 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:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Property income distribution | **454** | 424 |
| Service charge in relation to services provided at Thomas House, Kidlington | **14** | 14 |
| Repairs to properties | **–** | 7 |

The company owns 100% of Rodenhurst Estates Limited. The transactions between the company and Rodenhurst Estates have been eliminated on consolidation.

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| John Hewitt | **7** | 4 |
| David Kingerlee | **31** | 29 |
| Roberta Miles | **1** | – |

# Notes to the consolidated financial statements continued

for the year ended 31 December 2014

## 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 (2013 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.

| | | **2014** | | | 2013 | |
|---|---|---|---|---|---|---|
| **IFRS 13 measurement classification** | **Level 3 Unquoted equity investments £'000** | **Level 1 Quoted equity investments £'000** | **Total Quoted and unquoted £'000** | Level 3 Unquoted equity investments £'000 | Level 1 Quoted equity investments £'000 | Total Quoted and unquoted £'000 |
| Opening cost | **4** | **1,823** | **1,827** | 4 | 2,591 | 2,595 |
| Opening unrealised gain | **5** | **3,395** | **3,400** | 5 | 3,113 | 3,118 |
| Opening fair value at 1 January | **9** | **5,218** | **5,227** | 9 | 5,704 | 5,713 |
| Additions at cost | **–** | **491** | **491** | – | 127 | 127 |
| Disposal proceeds | **–** | **(969)** | **(969)** | – | (1,382) | (1,382) |
| Net loss realised on disposal | **–** | **(235)** | **(235)** | – | 146 | 146 |
| Change in fair value in the year on assets held at 31 December | **–** | **(139)** | **(139)** | – | 623 | 623 |
| Closing fair value at 31 December | **9** | **4,366** | **4,375** | 9 | 5,218 | 5,227 |
| Closing cost | **4** | **1,831** | **1,835** | 4 | 1,823 | 1,827 |
| Closing unrealised gain | **5** | **2,692** | **2,697** | 5 | 3,395 | 3,400 |
| At 31 December | **9** | **4,523** | **4,532** | 9 | 5,218 | 5,227 |

## 18 Financial instruments and financial risk continued

| Categories of financial instruments | 2014 Carrying amount £'000 | 2014 Income/ (expense) £'000 | 2013 Carrying amount £'000 | 2013 Income/ (expense) £'000 |
|---|---|---|---|---|
| Financial assets designated at fair value through profit and loss | | | | |
| Equity investments | **4,532** | **(139)** | 5,227 | 623 |
| Loans and receivables: | | | | |
| Trade and other receivables | **415** | **–** | 422 | – |
| Cash and cash equivalents | **2,039** | **–** | 3,128 | – |
| | **2,454** | **–** | 3,550 | – |
| Financial liabilities measured at amortised cost: | | | | |
| Interest bearing loan | **4,000** | **–** | 4,000 | – |
| Trade and other payables | **341** | **–** | 261 | – |
| | **4,341** | **–** | 4,261 | – |

### 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 2014 the group had £4,000,000 (2013 £4,000,000) of medium term borrowing repayable in 2020 at fixed interest rates averaging 4.45% (2013 4.45%). 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 2014 was £nil (2013 £nil).

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 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.The group only places cash holdings with major financial institutions that satisfy specific criteria.

### 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 and its current assets exceed its current liabilities.

# Notes to the consolidated financial statements continued

for the year ended 31 December 2014

## 18 Financial instruments and financial risk continued

### 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.

### Currency exchange risk

The group is not directly exposed to currency risk. However, most of the group's equity investments are held in international companies and 38.8% (2013 29.3%) 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 2014 there were no group financial liabilities at variable rates (2013 £nil).

### Borrowing facilities

The group has no undrawn committed borrowing facilities.

## 19 Net assets per share

| | **2014** | 2013 |
|---|---|---|
| Net assets | **£47,702,000** | £42,428,000 |
| Ordinary shares in issue | **5,167,240** | 5,167,240 |
| Basic net assets per share | **923p** | 821p |

# Independent auditor's report

to the members of Highcroft Investments PLC

We have audited the financial statements of Highcroft Investments PLC for the year ended 31 December 2014 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 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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/auditscopeukprivate.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014;
- 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 matter 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 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 2014.

**Nicholas Watson**
Senior Statutory Auditor

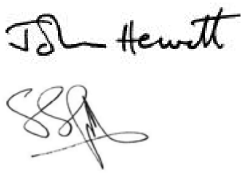
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
25 March 2015

# Company balance sheet

at 31 December 2014

| | Note | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | | **£'000** | **£'000** | £'000 | £'000 |
| **Fixed assets** | | | | | |
| Investments | 5 | | **47,310** | | 42,955 |
| **Current assets** | | | | | |
| Debtors | 6 | **973** | | 56 | |
| Cash at bank | | **46** | | 86 | |
| | | **1,019** | | 142 | |
| **Creditors** – amounts falling due within one year | 7 | **276** | | 158 | |
| **Net current assets/(liabilities)** | | | **743** | | (16) |
| **Total assets less current liabilities** | | | **48,053** | | 42,939 |
| **Capital and reserves** | | | | | |
| Called up share capital | 8 | | **1,292** | | 1,292 |
| Reserves | | | | | |
| – Realised capital | 9 | **6,715** | | 6,451 | |
| – Capital redemption | | **95** | | 95 | |
| – Revaluation | 9 | **34,875** | | 30,529 | |
| – Retained earnings | 9 | **5,076** | | 4,572 | |
| | | | **46,761** | | 41,647 |
| **Shareholders' funds** | 11 | | **48,053** | | 42,939 |

These financial statements were approved by the board of directors on 25 March 2015.



**John Hewitt**
**Simon Gill**
Directors

Company number – 00224271

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

# Notes to the financial statements

for the year ended 31 December 2014

## 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 £2,148,000 (2013 £2,823,000). Information regarding directors' remuneration appears on pages 21 to 24 of the consolidated financial statements.

# Notes to the financial statements continued

for the year ended 31 December 2014

## 3 Auditor's fees

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | **21** | 21 |
| Fees payable to the company's auditor for other services: | | |
| Taxation | **5** | – |
| Other services | **1** | 1 |
| | **27** | 22 |

## 4 Dividends

In 2014 the following dividends have been paid by the company:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| 2013 Final: 21.25p per ordinary share (2012 19.8p) | **1,098** | 1,023 |
| 2014 Interim: 13.25p per ordinary share (2013 12.5p) | **685** | 646 |
| | **1,783** | 1,669 |

On 25 March 2015 the directors declared a property income distribution of £1,176,000, 22.75p per share (2013 £1,098,000, 19.8p per share) payable on 5 June 2015 to shareholders registered at 8 May 2015.

## 5 Investments

| | | Shares in subsidiary under-taking | Other Investments | |
|---|---|---|---|---|
| | Total £'000 | £'000 | Listed £'000 | Unlisted £'000 |
| Valuation at 1 January 2014 | 42,955 | 37,728 | 5,218 | 9 |
| Additions at cost | 649 | – | 649 | – |
| Disposals | (1,205) | – | (1,205) | – |
| Surplus/(deficit) on revaluation in excess of cost | 4,985 | 5,050 | (65) | – |
| Revaluation decrease below cost | (76) | – | (76) | – |
| Revaluation increase still less than cost | 2 | – | 2 | – |
| **Valuation at 31 December 2014** | **47,310** | **42,778** | **4,523** | **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:

| | | Shares in subsidiary under–taking | Other investments | |
|---|---|---|---|---|
| | Total £'000 | £'000 | Listed £'000 | Unlisted £'000 |
| **Cost at 31 December 2014** | **12,106** | **10,271** | **1,831** | **4** |
| Cost at 31 December 2013 | 12,097 | 10,271 | 1,822 | 4 |

At 31 December 2014, 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 and Wales.

At 31 December 2014 the net assets of Rodenhurst Estates Limited were £42,778,000 (2013 £37,728,000) and the profit for the financial year was £3,414,000 (2013 £2,676,000).

## 6 Debtors

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Owed by subsidiary undertaking | **970** | 53 |
| Other debtors | **3** | 3 |
| | **973** | 56 |

## 7 Creditors – amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Other taxes and social security | **23** | 8 |
| Other creditors | **253** | 150 |
| | **276** | 158 |

## 8 Share capital

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Allotted, called up and fully paid 5,167,240 (2013 5,167,240) ordinary shares of 25p each | **1,292** | 1,292 |

## 9 Reserves

| | Revalua–tion £'000 | Realised capital £'000 | Retained earnings £'000 |
|---|---|---|---|
| At 1 January 2014 | 30,529 | 6,451 | 4,572 |
| Profit retained | – | – | 2,148 |
| Dividends paid | – | – | (1,783) |
| Revaluation loss – equities | (139) | – | 139 |
| Revaluation gain – Rodenhurst Estates Limited | 5,050 | – | – |
| Realised gains | – | (185) | – |
| Tax on realised gains | – | (116) | – |
| Surplus attributable to assets sold in the year | (565) | 565 | – |
| **At 31 December 2014** | **34,875** | **6,715** | **5,076** |

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.

STRATEGIC REPORT

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# Notes to the financial statements continued
for the year ended 31 December 2014

## 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 20% (2013 21%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

| | Provided | | Unprovided | |
|---|---|---|---|---|
| | **2014 £'000** | 2013 £'000 | **2014 £'000** | 2013 £'000 |
| Unrealised capital gains | **–** | – | **7,246** | 6,555 |

## 11 Reconciliation of movements in shareholders' funds

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Profit for the financial year | **2,148** | 2,823 |
| Dividends | **(1,783)** | (1,669) |
| | **365** | 1,154 |
| Other recognised gains and losses: | | |
| Surplus on revaluation of assets | **5,050** | 1,919 |
| Realised (losses)/gains | **(185)** | 112 |
| Tax on prior years' surplus now realised | **(116)** | (48) |
| Net increase in shareholders' funds | **5,114** | 3,137 |
| Shareholders' funds at 1 January 2014 | **42,939** | 39,802 |
| Shareholders' funds at 31 December 2014 | **48,053** | 42,939 |

## 12 Capital commitments

There were no capital commitments at 31 December 2014 or at 31 December 2013.

## 13 Contingent liabilities

There were no contingent liabilities at 31 December 2014 or at 31 December 2013.

## 14 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2013 25.5%) of the company's shares and David Kingerlee is 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:

| | **2014 £'000** | 2013 £'000 |
|---|---|---|
| Property income distribution | **454** | 424 |
| Service charge in relation to services provided at Thomas House, Kidlington | **14** | 14 |

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

# Group five year summary (unaudited)

| | 2014 £'000 | 2013 £'000 | 2012 £'000 | 2011 £'000 | 2010 £'000 |
|---|---|---|---|---|---|
| Investment properties – at annual valuation | **46,523** | 39,415 | 31,609 | 30,787 | 30,705 |
| Equity investments – at market value | **4,532** | 5,227 | 5,713 | 5,598 | 5,608 |
| Total net assets | **47,702** | 42,428 | 39,241 | 37,223 | 37,002 |
| Net asset value per share in issue at end of each year | **923p** | 821p | 759p | 720p | 716p |
| **Revenue** (excluding gains/losses on disposals of assets) | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Gross income from property | **3,079** | 2,731 | 2,351 | 2,129 | 2,053 |
| Dividend income | **437** | 233 | 251 | 261 | 234 |
| Profit available for distribution | **3,758** | 2,921 | 3,720 | 2,066 | 1,965 |
| **Share capital** | | | | | |
| Average number in issue (000's) | **5,167** | 5,167 | 5,167 | 5,167 | 5,167 |
| Basic earnings per ordinary share | **136.5p** | 94.0p | 69.6p | 33.4p | 76.7p |
| Adjusted earnings per ordinary share | **72.7p** | 56.5p | 72.0p | 40.1p | 38.0p |
| Dividends payable per ordinary share | **36.0p** | 33.75p | 31.8p | 30.0p | 28.6p |
| FTSE 350 Real Estate Index | **543** | 469 | 394 | 314 | 354 |
| Highcroft year end share price | **855p** | 720p | 590p | 465p | 495p |

# Directors and advisers

## Company number
00224271

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

## Company secretary
Roberta Miles, MA FCA

## Independent auditor
Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
3140 Rowan Place
John Smith Drive
Oxford Business Park South
Oxford
OX4 2WB

## Independent valuer
Knight Frank LLP
55 Baker Street
London
W1U 8AN

## Bankers
Lloyds Bank plc
The Atrium
Davidson House
Forbury Square
Reading
RG1 3EU
and

Svenska Handelsbanken AB (publ)
7th Floor, Seacourt Tower
West Way, Botley
Oxford
OX2 0JJ

## Solicitors
Clarkslegal LLP
One Forbury Square
The Forbury
Reading
RG1 3EB
and

Charles Russell LLP
5 Fleet Place
London
EC4M 7RD

## Property managing agents
Jones Lang LaSalle Limited
40 Berkeley Square
Bristol
BS8 1HU

## Corporate finance advisers
Charles Stanley Securities
131 Finsbury Pavement
London
EC2A 1NT

## Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

## Registered office and business address
Thomas House
Langford Locks
Kidlington
Oxon
OX5 1HR

**Highcroft Investments PLC**

Thomas House, Langford Locks
Kidlington, Oxon
OX5 1HR

**Tel:** 01865 840023
**Email:** office@highcroftplc.com
**Web:** www.highcroftplc.com