Highcroft Investments PLC

Annual Report and Financial Statements
For the year ended 31 December 2015

www.highcroftplc.com
Stock code: HCFT

Welcome to the Highcroft Investments PLC 2015 Annual Report

Who we are

Highcroft Investments PLC is a Real Estate Investment Trust (REIT*) which has holdings 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, profits and 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 the south of 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 strengths

- High quality property assets
- Strong and sustainable cashflows
- Strategic focus
- Low gearing
- Ability to react swiftly to market opportunities
- Experienced team

Our tenants

View more information online at:
www.highcroftplc.com

Chairman's introduction

John Hewitt
Non-executive chairman

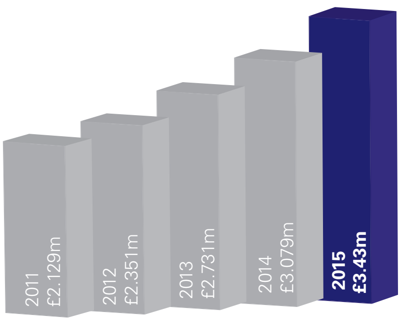
Welcome to our 2015 annual report and financial statements. This document provides a review of the business for the financial year, summarises our strategic approach, the ways in which we manage risk and also our approach to corporate governance.

The board is pleased with the performance of the group and believes that it is well placed to progress towards its 2016 objectives.

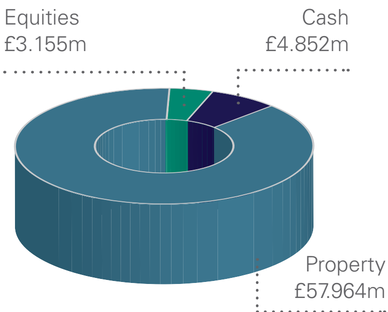
Key highlights

Gross income from property

£3.435m ↑ 12%

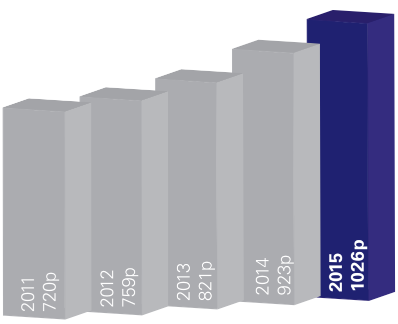


Investments at market value and cash



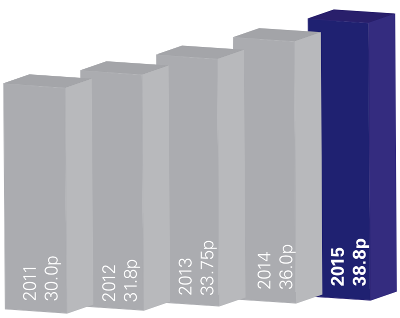
Net asset value per share

1026p ↑ 11%



Dividends payable

38.8p ↑ 8%



→ The report of the directors on page 24 and the directors' remuneration report on pages 20 to 23 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 2015.

→ Pages 13 to 26, including the chairman's introduction, governance report and the report of the directors, form part of the report of the directors.

At a glance

The commercial property assets which we own and manage are valued at £57,505,000, and in addition there are three residential assets valued at £459,000, a total of £57,964,000. Our equity investments are valued at £3,155,000.

During the year our property assets increased in value by 8.2% on a like-for-like basis and our new acquisition by 11.8% in the seven month period of ownership.

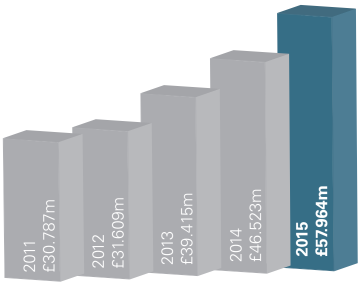
	Commercial	£'000
1	Retail park in Wisbech let to Dunelm, Currys PC World, Carpetright, Halfords and Pets at Home	9,600
2	Retail warehouse in Bicester let to Wickes	6,400
3	Office building in Cardiff let to Arriva Trains	3,900
4&5	Two retail units in Oxford let to Jigsaw	3,830
6	Warehouse in Milton Keynes let to Ikea	3,700
7	Warehouse in Ash Vale, Aldershot let to SIG Trading	3,700
8	Warehouse in Andover let to Jewsons	3,175
9	Distribution centre in Kidlington, Oxfordshire let to Parcelforce	3,050
10	Radio station and office building in Oxford let to the BBC	2,925
11	Retail warehouse in Crawley let to Pets at Home	2,900
12	Distribution centre in Southampton let to Metabo	2,450
13	Warehouse in Bedford let to Booker	2,350
14	Retail unit in Leamington Spa let to Mint Velvet	1,635
15	Multi-let retail units in Cirencester, with residential above	1,600
16	Industrial unit in Warwick let to Nationwide Crash Repair	1,500
17	Multi-let retail units in Staines, with offices above	1,275
18	Retail unit in Oxford let to Britannia Building Society	1,265
19	Retail unit in Norwich let to Harriets Tea Rooms	1,125
20	Retail unit in Kingston – empty	1,125
Total commercial		**57,505**
Residential properties		**459**
Total		**57,964**

Property investments

We own 20 commercial properties, predominantly in the south-east of England.

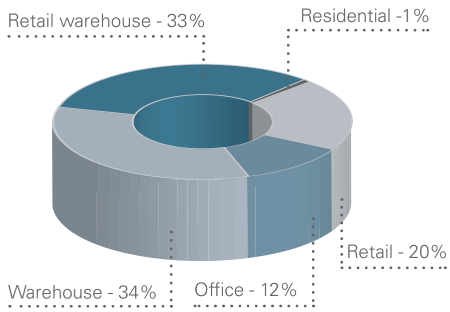
Investment properties – at annual valuation

£57.964m ↑ 25%

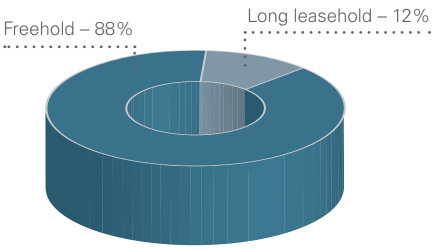


Movements in property asset value (£'000)

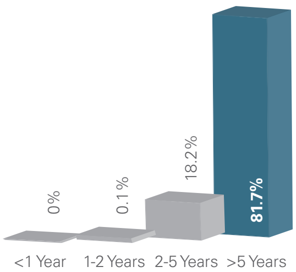
Split by sector (%)



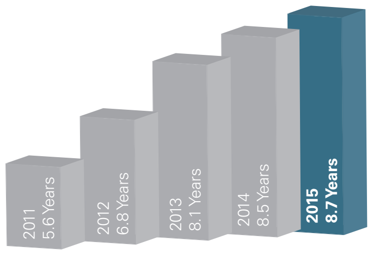
Tenure (%)



Weighted average lease length (%)



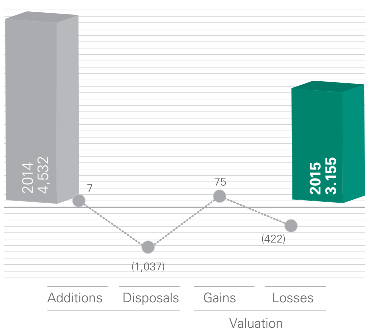
Weighted average lease length



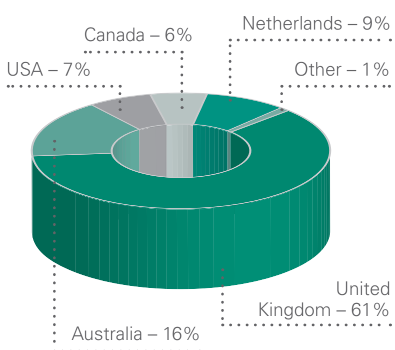
Equity investments

Our equity investments are valued at £3,155,000. Our equity investments are spread across 23 holdings, covering a range of sectors and geographical markets, with a bias towards the UK.

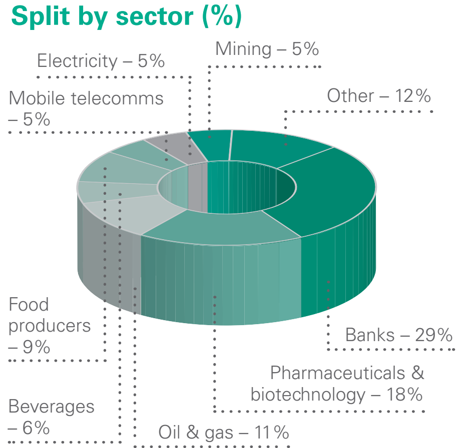
Equities value (£'000)



Geographical split (%)



Split by sector (%)



About us

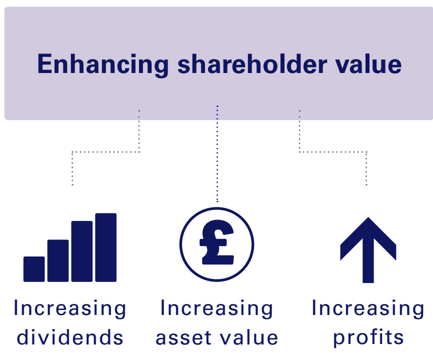
Our structure

Highcroft Investments PLC is the holding and listed company which owns the equity investments and carries out the group administration role. It has three wholly owned subsidiaries. Rodenhurst Estates Limited and Belgrave Land (Wisbech) Limited own the property assets and, with their advisers, administer these on behalf of the group. The other subsidiary BL (Wisbech) Limited is dormant. All the properties are wholly owned and we do not have any joint ventures or similar relationships.

Our business and our objective

Highcroft is a Real Estate Investment Trust (REIT) which has property and equity investments which are managed by the directors and their advisers with the aim of enhancing shareholder value via a combination of increasing asset value, profits and dividends.

Our business model



Our people

Highcroft is managed by a small team of three executive directors and two non-executive directors; more detail on their roles and skills is set out on page 14. We have one female and four male directors. The only other employee is a part-time bookkeeper. We welcomed Simon Costa to the board in May 2015 as senior independent director; he replaced Richard Stansfield who left the board in May 2015 after 12 years as a non-executive director.

Our strategy

The board reviews its objectives each year and agrees the detailed strategy that it will follow. The board reviews market data including projections for the sectors in which it operates in arriving at its strategy for the forthcoming year. During 2015 it was agreed that the board would:

- Continue to focus on our commercial property assets and increase the amount invested with a bias towards the south of England
- Increase the average lot size
- Continue to reduce our residential property holdings
- Continue to reduce the proportion of our assets held in equities and to reinvest the net cash into commercial property
- Seek capital growth opportunities within our property asset base
- Use medium-term gearing at a modest level if appropriate
- Provide a net dividend increase in excess of inflation.

Marketplace

The first half of 2015 still evidenced strong demand in the commercial property investment market, although the second half of the year showed a noticeable easing of demand from institutional investors. Private investors and property companies still sought a return on their money and, with interest rates remaining low, the pursuit of good quality investments continued. The industrial and warehouse sectors showed strong growth in terms of both rent and yield shift, as did offices, but with the emphasis on major centres. The top end of the residential market in London showed a significant cooling with the Chancellor's new proposals on stamp duty land tax affecting high value properties and ownership by foreign entities. We monitor the marketplace on an ongoing basis to ensure that our asset selection criteria are based on the most up-to-date information.

Our investments

The commercial properties which we own and manage are valued at £57,505,000 and, in addition, there is a small residential holding valued at £459,000; a total of £57,964,000. Our equity investments are valued at £3,155,000. More detail regarding the composition and performance of our assets is set out on page 2 to 3.

Our commercial property assets are located primarily in good locations in the south-east of England and there are 20 properties spread across a mixture of warehousing, retail warehousing, retail and office. 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 secured against attractive covenants, and actively manage our assets to minimise voids and to identify market opportunities.

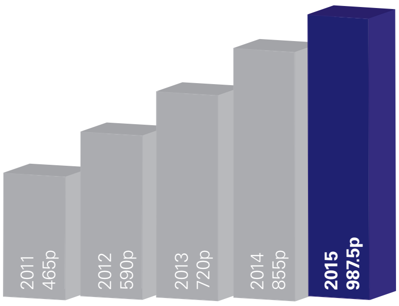
Our current strategy encompasses the identification of target properties in the potentially very attractive market that sits between private investors and larger corporate property investors.

We keep the composition of our holdings under regular review and aim gradually to change the distribution of the group's property holdings to enhance yields, improve balance and increase the average lot size.

During 2015 the board sought to enhance shareholder returns further, through taking on an additional level of gearing. We would consider additional gearing in the future. Our current gearing is 19.8% of the property assets (17.3% of total assets).

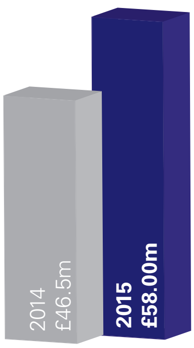
Our equity investments are spread across 23 holdings, covering a range of sectors and geographical markets, with a bias towards the UK. Our largest individual holding represents 10.4% of the total. Our strategy is gradually to move towards Highcroft becoming a pure REIT by divesting from equities. The net cash that is released will be reinvested into property in line with our strategy to provide enhanced returns to our shareholders.

Highcroft year end share price
Growth (2011–2015) 112%



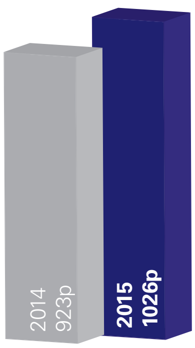
Key performance indicators

Increase value of property assets
Growth ↑ 24.6%

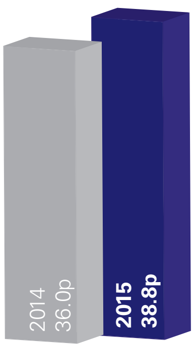


Increase gross property income
Growth ↑ 11.6%

Increase net asset value per share
Growth ↑ 11.2%



Increase dividends payable to shareholders
Growth ↑ 7.8%



Our objective is to deliver attractive shareholder return through the execution of our strategy described on page 4. We use four key performance indicators ('KPIs') to monitor the performance of the group. These KPIs are also taken into account in evaluating executive directors' performance and their remuneration. The achievement of these KPIs is influenced by the identification and management of risks which might otherwise prevent the attainment of our objectives. This process is described more fully in our risk management section on page 6. We are pleased to report a good growth in all our KPIs this year. The increases in the value of our property assets and in gross property income have been significantly influenced by our acquisition in the year, of our property asset in Wisbech which is described in detail on pages 8 and 9.

Principal risks and uncertainties facing the business

Risk management

The group's strategy is to enhance shareholder value via a combination of increasing asset value, increasing profit and increasing dividends.

Our approach to risk management is to identify those risks that may prevent the attainment of our strategic objectives, and to take any appropriate action to reduce or remove the likelihood of such issues having a material impact.

Our general appetite for risk is low. The board has delegated responsibility to the audit committee for the delivery of the risk management process. The executive board is responsible for the identification of risks and the design, implementation and maintenance of the systems of internal controls. At the point that any key strategic decision is taken, the potential risks are considered. Effective risk management is an important part of our board decision making process. All directors are kept up-to-date with key issues on at least a monthly basis via the circulation of a formalised report.

We have reviewed the risks in the year and, in particular, considered these and their potential impact on the group when preparing our viability statement. The table below summarises the key risks that face the business, their potential impact, the details of how we manage and mitigate the risk and a commentary on how we have performed in the period.

Risks and impacts	How we manage/mitigate the risk	Commentary	Movement in risk exposure in the period
1. Economic and political climate: Risk: The economy falters Impact: Poorer than expected revenue and capital performance.	External factors such as macro-economic conditions and political risks are outside the group's control. However, the group only purchases property in England and Wales and monitors the spread of its equity investments to ensure that exposure to weaker or potentially weaker economies is minimised. We regularly review, with our property advisers, key current and forecast data for the various sectors in which we operate. The Group ensures that its property investments are biased towards the south of England and in areas which are considered lower risk. The group spreads its property investment risk across a number of sectors (retail, office, retail warehouse and warehouse) and regularly reviews this mix. We assess, with the aid of our advisers, the financial status and creditworthiness of existing and potential tenants, particularly when a new lease is entered into, or a new property acquired. We actively manage our property assets 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 on a weekly basis by the executive directors.	Our property assets have performed well in the period across all sectors. At the start of 2015 there was a void on our Norwich property, whilst we carried out certain works on the property. The occupier of our Kingston unit died during the year. This caused a fall in rental income but there was an associated gain in valuation as the property has, in 2016, been sold with vacant possession. During 2015 bad debts were nil and we had few voids. Arrears are nominal and remain at an historic low. The group has 29 commercial tenants and our five largest tenants by current passing rent provide 39% (2014 44%) of current income.	↔

Key: Risk Increase ↑ Risk Remains the Same ↔ Risk Decrease ↓

Risks and impacts	How we manage/mitigate the risk	Commentary	Movement in risk exposure in the period
2. Business strategy: **Risk:** The group has an inappropriate strategy for the current stage of the property cycle and the economic climate. **Impact:** Reduced group profitability and capital value.	Board meetings are held on a regular basis for planning and forecasting for the business and the forecasts are updated for changes in economic conditions and opportunities as they arise. The executive board is very closely involved in the day-to-day management of the business and has regular contact with its team of advisers to ensure that it is fully briefed on market forecasts. The chief executive has extensive experience in the property sector. The group has a three year forecast.	The group has continued to review its assets and consider the opportunities to sell those that have little opportunity for rental or capital growth and to acquire assets that fit our acquisition criteria.	↔
3. Legislation: **Risk:** The group fails to meet its REIT requirements. **Impact**: Potential expulsion from the REIT regime, higher costs for the company and reduced investor demand for equity.	The board monitors compliance with REIT ratios regularly. We have further reduced the proportion of our assets held in equities and ensured that the property assets comprise in excess of 75% of our total investments.	Equity investments are a smaller percentage of our total assets. Other ratios are well within acceptable limits and do not give a cause for concern.	↔
4. Asset acquisition opportunities: **Risk:** The group is unable to source new property with suitable fundamentals. **Impact:** Reduced profitability and return to shareholders as our liquid assets are not fully invested.	The board has an extensive network of contacts in the property industry and is able to identify both on and off-market opportunities at an early stage. The board is open to alternative acquisition methods such as corporate acquisition or development opportunities.	The acquisition of our new retail park in Wisbech was via a corporate acquisition and this enabled us to purchase a property with good fundamentals which has performed well within the group in the first period of ownership.	↔
5. Availability and cost of finance: **Risk:** The group is unable to fund investment opportunities at an appropriate cost. **Impact:** Growth of group curtailed.	The board aims only to assume a moderate level of gearing, thus increasing the likelihood of being seen as an attractive banking proposition for lenders. Our requirement is for fixed interest, non-amortising debt with a spread of maturity dates.	Our level of debt increased in 2015 to £11.5m (2014 £4.0m). 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.	↓
6. Loss of key personnel: **Risk:** The group is unable to retain and attract high calibre directors. **Impact:** Negative impact on the group's performance.	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. The executive remuneration packages include a significant performance related element.	During 2015 one non-executive director resigned and we were able to compile a strong longlist of suitable applicants for the role, and our preferred candidate accepted the appointment. The nomination committee continues to consider the composition of the board and the remuneration committee has carefully considered the performance-related element of remuneration.	↔

Operating and financial review

Simon Gill
Chief executive

In 2015 we continued our strategy of improving the quality of the property assets with considerable success, and in spite of a very competitive investment market. Significant savings were made in purchasing our Wisbech property by acquiring the corporate group that owned it. We aim to reduce costs wherever possible. 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 49% – a compound annual increase of 6.9%. In the same period our net assets per share have increased by 54% from £6.66 to £10.26 per share, and our share price by 122% from £4.45 to £9.875 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 our commercial property assets;
- sell our residential property assets when opportunities arise; and
- reduce the proportion of our total investments held as equities.

During the year the group released £937,000 of net (of tax) cash from equities and reinvested this, together with existing cash, into commercial property in one acquisition. The group completed one commercial and two residential property disposals realising £2,332,000 of net cash. In addition, contracts were exchanged on one commercial property disposal in December 2015 and that was completed in January 2016 and will be accounted for in 2016. The directors are currently reviewing further target investment opportunities.

Allocation of total investments

	2015 %	2014 %	2013 %	2012 %	2011 %
Commercial property	**94**	89	85	82	82
Residential property	**1**	2	3	3	3
Equity investments	**5**	9	12	15	15
Total	**100**	100	100	100	100

Summary of property investment activities

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Additions at cost	**8,590**	6,084	8,488	4,827	2,871
Net proceeds from disposals	**(2,332)**	(3,548)	(2,340)	(4,972)	(2,796)
Net investment in property	**6,258**	2,536	6,148	(145)	75

Property assets

In 2015 we continued our strategy of identifying properties where we perceived little future rental growth and which were attractive to the investment market. In addition, we sought attractive acquisitions that would fit our purchasing criteria.

Property acquisitions

During the year, in May, the group purchased two related companies thus acquiring the single property asset of a multi-let retail park in Wisbech. The purchase price, net of costs, was £8,500,000, making it our largest property asset. We are pleased to report that it has outperformed the market and the year-end property valuation was £9,600,000. Additional detail is set out overleaf.

We continue to seek further attractive opportunities in the marketplace where we can invest to improve shareholder value through enhanced asset value and dividend yield.

Property disposals

During 2015 the directors identified two commercial assets which we could sell and reinvest the proceeds in due course into assets with longer-term leases and stronger covenants, in line with our policy.

We sold our Warrington property during the year. This property was purchased in 2001 with a 46 year unexpired term on a lease to Yates (pub chain) at £135,000 pa. The purchase price was £1,873,000. Yates went into administration in 2008 and leases were granted to Wetherspoons and Cash Converters, but at a lower total rent than at purchase. The board decided, in 2015, that this asset, which was situated outside our preferred geographical area, did not present an opportunity for future rental or capital growth and that an auction sale would yield the best result for the group. Additional detail is set out in the box overleaf.

In addition, the group sold, during the year, one vacant residential unit and one occupied residential unit for gross proceeds of £1,261,000 giving a total profit of £282,000 over the December 2014 valuation.

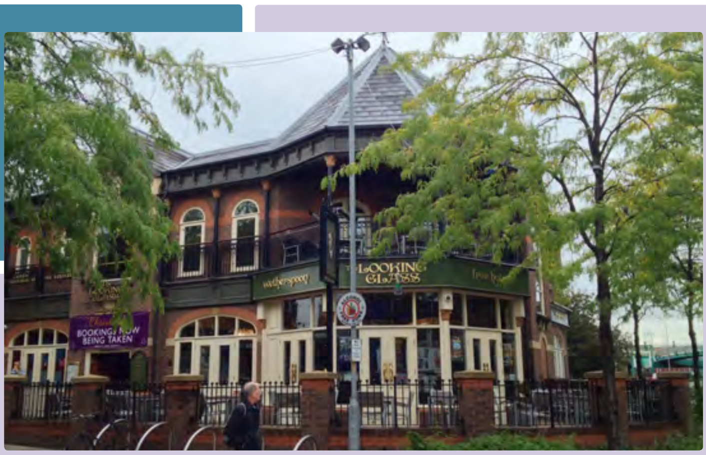
We exchanged contracts on the sale of our Kingston property in December 2015 and completed the sale in January 2016. We will report on this more fully in the 2016 accounts.

Property acquisition in the year

Belgrave Retail Park, Wisbech

Purchased: May 2015
Cost of purchase – including costs: £8,590,000
Let to:
Currys PC World
Carpetright
Halfords
Dunelm
Pets at Home
Current rental income: £621,000
Net initial yield: 7.2%
December 2015 valuation: £9,600,000

Property disposal in the year



Warrington

Let to: Wetherspoons for a term expiring in 2039 @ £53,750 pa and Cash Converters for a term expiring in 2020 @ £22,500 pa

December 2014 valuation: £950,000
July 2015 auction sale price: £1,100,000
Net initial yield to purchaser: 6.6%
Excess over December 2014 valuation: 16%

Operating and financial review continued

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 investments can be summarised as follows:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Realised gains on investment property	**418**	941	415	1,552	360
Realised losses on investment property	**–**	(4)	–	–	(82)
	418	937	415	1,552	278
Revaluation gains on investment property	**4,840**	3,785	1,833	1,769	801
Revaluation losses on investment property	**(75)**	(150)	(590)	(2,355)	(1,072)
	4,765	3,635	1,243	(586)	(271)

The realised gains arose primarily from the disposal of our Warrington property and the vacant residential unit. Overall, our property assets increased in value during the year by £4,765,000 which represents 8.2% on a like-for-like basis. The three most significant revaluation gains related to: our warehouse in Southampton where a new lease was entered into during the year; our new Wisbech retail park and the retail unit in Kingston where the year-end valuation reflects the price that we were able to achieve on its sale in January 2016. There was only one property, our multi-let retail units in Staines, that decreased in value and we are actively managing this unit.

Balance of property assets

Our aim is to hold commercial assets across a range of sectors and to manage the balance actively depending upon our expectations of future market performance. Our property assets are split, by valuation, as follows:

	2015 %	2014 %	2013 %	2012 %	2011 %
Warehouse	**34**	38	33	39	28
Retail warehouse	**33**	20	15	–	–
Retail	**20**	23	29	41	39
Office	**12**	14	17	13	26
Leisure	**–**	2	2	3	3
Residential	**1**	3	4	4	4
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 assets.

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

	2015 %	2014 %	2013 %	2012 %	2011 %
Increase in total property income	**12**	13	16	10	4

The growth is comprised of many factors; the key ones are:

- a full year's income from our Ash Vale and Crawley properties which were purchased in July 2014 and August 2014 respectively;
- increased rents arising from one rent review and one fixed increase of rent;
- the effect of the income from our Wisbech acquisition for the period since 15 May 2015;
- a reduced rental from our retail properties in Norwich, Leamington Spa and one of our Cirencester units where there were two lease expiries and one tenant went into administration. All these units have been re-let;
- a reduced rental from our Kingston property which was unoccupied for part of the year. This property has been sold in 2016; and
- a reduced rental arising from the sale of our Warrington property and the associated write back of the IFRS rent free debtor on disposal.

Property costs

Throughout the year we concentrated on our existing assets to ensure that income was maintained. Although we had some periods where we were unable to collect rent, we had no void costs such as rates or service charges. We did have costs associated with the expiry of the Austin Reed lease at Norwich where, by going into administration, they were able to reach an agreement with creditors where they paid only £1 towards any dilapidations costs. We have included the costs that we incurred on dealing with the dilapidations in property costs. We also incurred costs in renovating our retail property in Leamington Spa as part of agreeing a new lease with a new tenant.

Our historical summary of property operating expenses including the cost of voids and bad debts is:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Other property costs	**329**	158	151	184	303
Voids	**–**	–	–	2	63
Bad debts	**–**	–	–	–	–

Equity investments

In 2015, in line with our strategy, we released £937,000 of net (of tax) cash from our equities after allowing for the acquisition costs of £7,000 for new holdings. After the year end we have released a further £493,000 of cash from our equity holdings.

Capital performance of our equities

These assets performed below the market in 2015 due to the timing of the majority of our sales early in the year to assist with the funding of our Wisbech property. Our gains and losses can be summarised as:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Realised gains on equity investments	**12**	14	179	79	81
Realised losses on equity investments	**(80)**	(250)	(33)	(5)	(24)
	(68)	(236)	146	74	57
Revaluation gains on equity investments	**75**	217	653	598	316
Revaluation losses on equity investments	**(422)**	(356)	(30)	(174)	(563)
	(347)	(139)	623	424	(247)

Income from equity investments

Our income from equity investments has decreased, primarily due to the fact that the 2014 figure included the effect of the Vodafone demerger which resulted in £221,000 of dividend income. The resultant underlying fall of £33,000 was due to the strategic reduction in our equity holdings.

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Income from equity investments	**182**	437	234	251	261

Financial performance

Financial performance – revenue activities

Gross income for the year ended 31 December 2015 increased 3% to £3,617,000 (2014 £3,516,000).

Analysis of gross income	**2015 £'000**	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Commercial property income	**3,402**	3,044	2,691	2,308	2,086
Residential property income	**33**	35	40	43	43
Gross income from property	**3,435**	3,079	2,731	2,351	2,129
Income from equity investments	**182**	437	234	251	261
Total income	**3,617**	3,516	2,965	2,602	2,390

Underlying commercial property income has risen 12% in 2015 as described on page 10.

Residential property income is generated from one regulated tenancy and two flats above commercial units, together with ground rents.

The movement in the income from equity investments is described above.

Operating and financial review continued

Analysis of administrative and net finance expenses	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Directors' remuneration	**378**	306	188	156	162
Auditor's remuneration including other services	**37**	34	22	20	21
Other expenses	**118**	92	135	135	152
Administration expenses	**533**	432	345	311	335
Net finance expense/(income)	**358**	170	54	(8)	(15)
Total expenses	**891**	602	399	303	320

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 and 2015. These changes are described in more detail in the directors' remuneration report. Finance costs increased as the group took an additional £7,500,000 of medium-term borrowing in May 2015 to help fund the Wisbech acquisition. Other expenses, in particular legal and professional fees, have increased due to the general level of activity and the increased size of the business.

Summary of profit before tax and income tax credit on revenue activities	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Profit before tax	**2,815**	3,693	2,830	3,667	2,045
Income tax credit	**56**	65	91	53	21
Profit for the year	**2,871**	3,758	2,921	3,720	2,066

The reduced result in 2015 was influenced by an increase in net rental income of £185,000 and offset by a decrease in net realised gains on investment property of £519,000, a decrease in dividend revenue of £255,000, and increases in administration expenses of £101,000 and finance expenses of £188,000.

Financial performance – capital activities

A summary of our investments is laid out on pages 2 and 3 and of our capital performance on pages 10 and 11.

Financial performance – cashflow

Our cashflow in the year can be summarised as:

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Opening cash	**2,039**	3,128	3,274	1,926	2,472
Net cash from operating activities	**2,523**	2,910	2,414	2,397	1,212
Investment acquisitions – property	**(8,590)**	(6,084)	(8,488)	(4,827)	(2,871)
Investment acquisitions – equities	**(7)**	(649)	(125)	(540)	(423)
Investment disposals – property	**2,332**	3,548	2,340	4,972	2,796
Investment disposals – equities	**969**	969	1,382	922	243
Dividend paid	**(1,914)**	(1,783)	(1,669)	(1,576)	(1,503)
Medium-term loan	**7,500**	–	4,000	–	–
Closing cash	**4,852**	2,039	3,128	3,274	1,926

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

Other matters

The group's policies on environmental and social responsibility matters are set out on page 25 of this report.

Summary of performance

We are pleased with the results for the year and remain optimistic that we start 2016 from a position of strength upon which we hope to build. We have set ourselves some challenging objectives for 2016 and we hope that our actions will continue to increase shareholder value via improved dividend streams and asset values.

Approved by the board and signed on its behalf.

Simon Gill
Chief executive
22 March 2016

Chairman's introduction to corporate governance

John Hewitt
Chairman

All members of the board support the principles of good corporate governance. We are committed continually to renewing and refreshing the group's corporate governance framework.

Dear shareholder

Welcome to the corporate governance section of the group's annual report. Whilst Highcroft is a relatively small premium listed group, good corporate governance remains one of our core values and we strive to follow the appropriate guidance and rules. 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 policies. The board carries out a regular review of these protocols.

Our strategy is set out on page 4. The whole board supports this strategy and ensures that any actions that it approves are in line with this strategy.

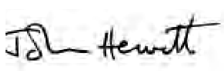
The board recognises the importance of staying up-to-date with the ever-evolving corporate governance framework within which we operate, and in adopting the spirit of all the recommendations. The board has now adopted all the applicable recommendations of the UK Corporate Governance Code.

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 executive 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. 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 and there is a Controlling Shareholder Agreement in place as required by the Listing Rules.

We look forward to welcoming many of our shareholders to our annual general meeting (AGM) on 12 May 2016.

This governance report on pages 13 to 26 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

Simon Costa

(from 16 May 2015)

Non-executive director and senior independent director

Appointment to the board
Simon joined the board as senior independent director on 16 May 2015.

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

Other appointments
Simon is currently senior and finance bursar at a college of Oxford University. He is responsible for overseeing the management of their endowment, the management of the finance function and serves on several college committees.

Previous experience/ brings to the board
Simon was formerly an investment banker specialising in global M&A activities and then for nine years ran his own property company and advised US and UK public and private corporations on finance, operations, and strategy, and it also owned a small property portfolio. Simon's particular breadth of experience provides the board with a greater range of market knowledge and skills, which are particularly relevant to a company with growth aspirations.

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 campaign adviser to Wadham College, Oxford and is a member of the college's investment committee.

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 is 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.

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 Cyber Security Challenge (UK) 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.

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 is chairman of Kingerlee Limited and 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 group and our internal IT systems. His other business activities provide the directors with practical solutions and opinion to any property issues.

Corporate governance

Governance structure

The board

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 three 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.

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. Simon Costa has held this role since his appointment on 16 May 2015 and Richard Stansfield held it prior to that.

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.

Both of the independent non-executive directors are highly experienced and have a good knowledge of listed companies. In view of their career experience and skill-set the board considers that they each bring valuable skills to the board and provide an objective perspective. The effectiveness of each non-executive director was considered at a board meeting on 22 March 2016 and the board confirms that each of the independent directors standing for election is effective. At the same board meeting the board considered the independence criteria in the Code. The board acknowledged that Simon Costa was independent by reference to the criteria of the Code. The board also acknowledged that whilst John Hewitt, by reason in his length of service and his shareholding did not fully meet the independence criteria in the Code, based on the information provided the board confirmed that it was satisfied that he acts independently.

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 Simon Costa.

Remuneration committee

This committee is comprised of the non-executive directors and chaired by Simon Costa.

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 17 to 23.

It is intended that the terms of reference of these committees will be made available on the group's website during 2016.

Corporate governance continued

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.

At 31 December 2014 the audit committee did not have a member with recent and relevant financial experience which was not in accordance with Code provision C.3.1. This non-compliance was taken into account by the nomination committee in its search for a new senior independent director and, with the appointment of Simon Costa on 16 May 2015, the board agreed that the group was now compliant with the Code.

Board effectiveness

The board meets at least six 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 2015 the board conducted an internal 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 23 clear 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.

The company has a controlling shareholder and this is explained fully on page 25.

The directors have put in place measures to ensure that the election or re-election by the shareholders 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, namely the independent shareholders.

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

During 2015 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**	**4**
John Hewitt	6	3	2	4
Richard Stansfield (resigned 15 May 2015)	3/3	1/1	1/1	4
Simon Costa (appointed 16 May 2015)	3/3	2/2	1/1	0/0
Simon Gill	6	N/A	N/A	N/A
David Kingerlee	6	N/A	N/A	N/A
Roberta Miles	6	3 (part)	N/A	N/A

Report of the audit committee

Simon Costa
Chairman of the audit committee

A particular focus of the committee has been on the change in UK accounting standards and in the integration of our two new group companies.

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 Simon Costa as chairman and John Hewitt. Until his resignation from the board on 15 May 2015 Richard Stansfield, non-executive director, chaired this committee. The committee meets regularly during the year, in line with the financial reporting timetable, and in 2015 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 2015 continue to be the valuation of our property and investment assets and the changing financial reporting requirements relating, in particular, to United Kingdom accounting standards.

In addition, in 2015, the committee considered the integration of our two new subsidiary companies that were purchased as part of the acquisition of our Wisbech asset.

The committee 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, as a whole, 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 with regards to the financial statements are described on page 26, and that of the auditor on page 30.

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 has, with effect from 1 January 2014, also provided 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. The audit team independently audit the tax provision. During the financial year Grant Thornton UK LLP was engaged in non-audit services, giving rise to fees of £19,000. The audit fee is £30,000.

In order to ensure that the external audit is as effective as possible, the auditor 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 auditor 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 auditor by the executives; confirmation that the auditor has not been restricted in their audit process; and a discussion of any areas where they have had to use their professional scepticism.

Report of the audit committee continued

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 has changed for the 2015 financial year. In particular, the committee has decided that the appointment of Grant Thornton as tax advisers does not compromise their independence.

The group has not performed a formal tender process since 2001. 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 2016.

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 board 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; and
- annual review of compliance with the Code.

More detail regarding our management of risk within our strategic framework is set out on page 6.

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 auditor prior to the release of the 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.

Simon Costa
Chairman of the audit committee

Report of the nomination committee

John Hewitt
Chairman

Much of the committee's work in the year related to the appointment of our new senior independent director and to the consideration of succession planning in the medium term.

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 Simon Costa (with effect from 16 May 2015). Richard Stansfield served on this committee until 15 May 2015. 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 the other 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 appoint a successor to Richard Stansfield as senior independent director. The committee agreed the selection criteria including: recent, relevant financial and commercial experience; understanding of the corporate governance framework within which Highcroft operates; independence; lack of any potential conflicts of interest; knowledge of the property market; and time availability. The committee consulted with external advisers and contacts and drew up a longlist of 14 candidates, of whom five were interviewed. The advisers and contacts included experienced professionals who understood Highcroft's business but were independent of any individual whose name they put forward. The committee did consider using head-hunters but, given the size and nature of the group, the cost of such an exercise was considered to be inappropriate in this circumstance. The committee took up references to assist with the selection process. In addition, Charles Stanley, as our corporate finance adviser at the time, carried out their own due diligence on the preferred candidate, in line with best practice. Both male and female candidates were considered at all stages. The nomination committee recommended that Simon Costa be appointed as senior independent director with effect from 16 May 2015. They judged that his skills and experience were a good fit to the identified requirements of the group.

In addition, Simon Costa was judged to have sufficient time to discharge the requirements of the role. The board accepted this recommendation and Simon Costa was appointed as senior independent director with effect from 16 May 2015.

During the year the committee also considered succession planning in the medium term.

Diversity

The company maintains a policy of employing the best candidates available in every position regardless of gender, ethnic group or background.

John Hewitt
Chairman of the nomination committee

Directors' remuneration report

Simon Costa
Chairman of the remuneration committee

The role of the remuneration committee is to determine and maintain a fair reward standard that incentivises directors and that is within the framework agreed by shareholders.

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 AGM.

Annual statement

Welcome to the report of the remuneration committee, my first and our third under the new Regulations.

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 report on pages 27 to 30.

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 0.43% in the company and has served as a director for 16 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.

Remuneration philosophy

The board's stated objective is to enhance shareholder value through a combination of increasing asset value, profits and 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 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 remuneration for executive directors. It was agreed that in the second year this would again take the form of a discretionary bonus that was calculated with reference to both group and individual performance during the year. Consideration was again 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 2016. 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 2016. The executives' salaries were benchmarked and additional increases were proposed and confirmed in February 2016.

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 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.

Benefits

No benefits are currently payable.

Pensions

No pensions were payable for 2015. The auto enrolment date is 1 April 2016 and an appropriate scheme was in place by 1 January 2016. From then a minimum level of company contribution of 1% will be payable to this scheme, if the eligible directors do not opt out, or to another scheme of the director's choice. This contribution level will rise in line with the regulatory requirements.

Performance related pay

A performance related pay scheme was introduced in 2014 for the executive directors, in accordance with the remuneration policy, 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.

Components of total reward

During the year the directors were entitled to a base salary and a discretionary bonus. They were not eligible to receive pension contributions, 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 was 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 are required by the articles of association toretire by rotation at each AGM. 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.

The Board has decided that, with effect from the 2016 AGM, all directors will offer themselves for re-election at each AGM as is recommended, although not required, by the Code.

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 there will be ongoing work to develop a more detailed framework to assess performance. It is intended that any new directors will be paid in accordance with our remuneration policy and would, if applicable, participate in variable remuneration arrangements on the same basis as existing 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.

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	6 November 2015	6 November 2018
Simon Costa	16 May 2015	11 May 2015	15 May 2018
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

In accordance with good corporate governance all directors will retire and submit themselves for re-election at the forthcoming AGM.

Directors' remuneration report continued

Annual remuneration report

Relative importance of spend on pay

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

	2015 £'000	2014 £'000	2013 £'000
Directors' remuneration	**338**	275	171
Distributions paid to shareholders	**1,914**	1,783	1,669
Directors' remuneration as a percentage of distributions paid to shareholders	**17.7%**	15.4%	10.2%

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.

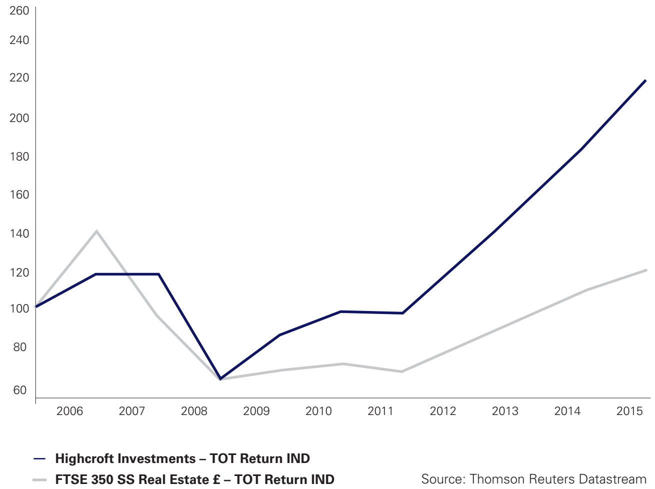
	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Simon Gill	**152**	111	21	–	–
Jonathan Kingerlee	**–**	–	20	35	34
	152	111	41	35	34
Percentage change in total remuneration of CEO	**37%**	171%	17%	–	–

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



Statement of implementation of remuneration policy in the next financial year

The group does not intend to make any significant changes to remuneration policy during 2016. Base salaries have been reviewed in accordance with this policy. As laid out in the policy, a pension scheme is being introduced with effect from 1 January 2016. The company will, during 2016, continue with the policy of not paying benefits. During 2016 it is intended to develop further the guidelines related to the discretionary bonus scheme.

Directors' remuneration (audited)

	2015			2014		
	Base salary £	**Discretionary bonus £**	**Total £**	Base salary £	Discretionary bonus £	Total £
John Hewitt	**20,500**	**–**	**20,500**	22,400	–	22,400
Richard Stansfield	**6,165**	**–**	**6,165**	16,200	–	16,200
Simon Costa	**10,335**	**–**	**10,335**	–	–	–
Simon Gill	**70,000**	**82,080**	**152,080**	51,400	60,000	111,400
David Kingerlee	**27,500**	**24,480**	**51,980**	23,150	17,500	40,650
Roberta Miles	**60,000**	**37,440**	**97,440**	56,943	27,500	84,443
Total	**194,500**	**144,000**	**338,500**	170,093	105,000	275,093

There were no benefits in kind. The group did 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 £144,000 (2014 £105,000) represents 7.5% (2014 5.9%) of distributions paid to shareholders in 2015.

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 2015, or date of appointment if later, and at 31 December 2015 were as follows:

	31 December 2015		1 January 2015 (or date of appointment if later)	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
John Hewitt	**21,985**	**–**	18,985	–
Simon Costa	**–**	**–**	–	–
Simon Gill	**–**	**–**	–	–
David Kingerlee	**88,470**	**99,225**	88,470	77,780
Roberta Miles	**2,700**	**–**	2,700	–

There have been no changes in the holdings between 1 January 2016 and 22 March 2016.

Statement of shareholder voting

At the annual general meeting in 2015 the directors' remuneration report received the following votes from shareholders:

Votes cast in favour	2,566,080	99.98%
Votes cast against	600	0.02%
Total votes cast	2,566,680	100.00%
Votes withheld	–	–

Approved by the board of directors and signed by

Simon Costa
Chairman of the remuneration committee
22 March 2016

Report of the directors

The corporate governance report on pages 13 to 23 forms part of the report of the directors

Roberta Miles
Company Secretary

The directors present their report together with the audited financial statements for the year ended 31 December 2015.

The principal activity of the group continues to be property and equity investment.

Directors

The directors listed on page 14 constituted the board at the end of the year. In addition, Richard Stansfield served as senior independent director until 15 May 2015. The interests of the directors in the shares of the company are included in the remuneration report on page 23.

In accordance with the UK Corporate Governance Code, all directors will retire and offer themselves for re-election at the forthcoming AGM on 12 May 2016.

The board confirms that following performance evaluations, as described in detail on page 15, 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 2015 was £1,291,810 (2014 £1,291,810) divided into 5,167,240 (2014 5,167,240) ordinary shares of 25 pence each, each of which was called up and fully paid. There have been no changes to the share capital since the year end.

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 22 March 2016 the following notifications of interests in 3% or more of the company's ordinary share capital in issue at the date of this report had been received:

			Number of shares	
			Beneficial	Non-beneficial
D G & M B Conn and associates		20.8%	1,074,067	–
Controlling shareholder – Kingerlee Concert Party comprised of:		42.01%	2,170,634	–
– 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	9.58%		494,770	
Total		27.25%		
– other associates		14.76%	763,191	–

Controlling shareholder

A controlling shareholder is 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 of 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 22 March 2016, held 2,170,634 ordinary shares, representing 42% of the company's issued share capital. The Kingerlee Concert Party is therefore a controlling shareholder. The persons comprising the Kingerlee Concert Party were confirmed by the Takeover Panel in 1999. The company can confirm that, in accordance with these 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 1 January 2015 until 31 December 2015 ("the period");
- so far as the company is aware, the independence provisions in the CSA have been complied with by the controlling shareholder and its associates in the period; and
- 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; and
- 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 by the shareholders 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, namely 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. Cashflow 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.

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 that it has relatively liquid assets, in the form of listed equity investments, which it can draw on if necessary.

Viability statement

In accordance with C.2.2 of the 2014 revision of the Code, the directors have assessed the prospect of the group over a longer period than the 12 months required by the "going concern" provision. The board conducted this review for a period of three years to coincide with its detailed review of the group's financial budgets and forecasts. The period is also consistent with the periods until the next lease event on many of our properties and expires before the fixed term of our shortest dated debt.

The board considered the group's cashflows including the required cashflows to meet the dividend requirement of the REIT regime, REIT compliance, income profile, loan to value and other key financial metrics. The board has also considered the level of equity and property capital transactions that are likely to occur.

The board also conducted a sensitivity analysis taking into account the potential impacts of the group's principal risks as set out on pages 6 to 7 actually occurring.

Based on the results of the analysis the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

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 properties 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.

Disclosure of information to the auditor

So far as the directors who held office at the date of approval of this directors' report are aware, there is no relevant audit information of which the auditor is unaware and each director has taken steps that he or she ought to have taken as a director to make himself or herself aware of any audit information and to establish that the auditor is aware of that information.

Auditor

Grant Thornton UK LLP has 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 12 May 2016.

This report was approved by the board on 22 March 2016.

Roberta Miles
Company secretary
22 March 2016

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 including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and with the Companies Act 2006. 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; and
- 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.

The directors confirm that so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and the directors have taken 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.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the audit committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

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.

On behalf of the board.

John Hewitt
Chairman
22 March 2016

Independent auditor's report

To the members of Highcroft Investments PLC

Our opinion on the financial statements is unmodified

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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.

What we have audited

Highcroft Investment PLC's group financial statements for the year ended 31 December 2015 comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cashflows, the notes to the consolidated financial statements, the company balance sheet, the company statement of changes in equity and the notes to the company financial statements.

The financial reporting framework that has been applied in their preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the the parent company financial statements is United Kingdom Generally Accepted Accounting Practice including FRS 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'.

Overview of our audit approach

- Overall group materiality: £333,000, which represents 0.5% of the group's total assets;
- We performed full scope audit procedures on the parent company Highcroft Investments PLC and each of its subsidiary undertakings; and
- The key audit risk was identified as the valuation of investment property.

Independent auditor's report continued

To the members of Highcroft Investments PLC

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Valuation of investment property The group has a significant property portfolio classified as investment properties for financial reporting purposes in accordance with International Accounting Standard (IAS) 40 'Investment Property'. Measurement of investment property values includes significant assumptions and judgements. We therefore identified the investment property valuation as a significant risk requiring special audit consideration. The group's accounting policy on investment property valuation is included in note 1 to the financial statements and related disclosures are shown in note 8. The Audit Committee identified the valuation of property as a significant issue in its report on page 17 under 'Financial reporting', where the Committee also described the action that it has taken to address this issue.	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; • challenging key assumptions such as forecasts for market yield, return on investment percentages and market growth, to publicly available third party analyst data and testing, on a sample basis, individual valuations to recent comparable market transactions obtained from a search of publicly available third party data; and • testing, on a sample basis, property additions and disposals in the period to third party documentation.

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

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the group financial statements as a whole to be £333,000, which is 0.5% of the group's total assets. This benchmark is considered the most appropriate since one of the group's main objectives is to increase asset values through capital appreciation of its investment properties, which is the most subjective balance in the financial statements.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2014 to reflect the impact of the increase in assets mainly due to the asset acquisition of the Wisbech property.

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. We also determine a lower level of specific materiality for certain areas such as the consolidated statement of comprehensive income, directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £16,700. 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

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

We conducted our audit in accordance with International Standards on Auditing (ISAs) (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 Board's 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 equity investments held by Highcroft Investments PLC and investment property held by its wholly owned subsidiaries. The day-to-day management of the group's investment portfolio is outsourced to third party service providers, and the year-end valuation of properties is determined by external valuers.

Our audit scope included an audit of the group financial statements of the parent company, Highcroft Investments PLC, and of the financial information of the significant components: Rodenhurst Estates Limited and Belgrave Land (Wisbech) Limited. The audits undertaken for group reporting purposes at the reporting components were all performed to materiality levels set individually for each such component and ranged from £49,000 to £250,000. We obtained an understanding of the nature and significance of the services provided by the third party service providers, including the effect on the group's 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 matters 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;
- the information given in the strategic report and report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance report set out on pages 13 to 26 with respect to internal control and risk management systems in relation to financial reporting processes is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Under the Listing Rules, we are required to review:

- the directors' statements in relation to going concern and longer-term viability, both of which are set out on page 25; and
- the part of the corporate governance report relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Independent auditor's report continued

To the members of Highcroft Investments PLC

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

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- 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
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the statement of directors' responsibilities set out on page 26, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Mark Bishop
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
22 March 2016

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Note	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Gross rental revenue		**3,435**	**–**	**3,435**	3,079	–	3,079
Property operating expenses	8	**(329)**	**–**	**(329)**	(158)	–	(158)
Net rental income		**3,106**	**–**	**3,106**	2,921	–	2,921
Realised gains on investment property		**418**	**–**	**418**	941	–	941
Realised losses on investment property		**–**	**–**	**–**	(4)	–	(4)
Net gains on investment property		**418**	**–**	**418**	937	–	937
Valuation gains on investment property		**–**	**4,840**	**4,840**	–	3,785	3,785
Valuation losses on investment property		**–**	**(75)**	**(75)**	–	(150)	(150)
Net valuation gains on investment property	8	**–**	**4,765**	**4,765**	–	3,635	3,635
Dividend revenue		**182**	**–**	**182**	437	–	437
Gains on equity investments	9	**–**	**87**	**87**	–	231	231
Losses on equity investments	9	**–**	**(502)**	**(502)**	–	(606)	(606)
Net investment income/(expense)		**182**	**(415)**	**(233)**	437	(375)	62
Administration expenses	3	**(533)**	**–**	**(533)**	(432)	–	(432)
Net operating profit before net finance expense		**3,173**	**4,350**	**7,523**	3,863	3,260	7,123
Finance income		**7**	**–**	**7**	8	–	8
Finance expense		**(365)**	**–**	**(365)**	(178)	–	(178)
Net finance expense		**(358)**	**–**	**(358)**	(170)	–	(170)
Profit before tax		**2,815**	**4,350**	**7,165**	3,693	3,260	6,953
Income tax credit	5	**56**	**14**	**70**	65	39	104
Profit for the year after taxation		**2,871**	**4,364**	**7,235**	3,758	3,299	7,057
Total profit and comprehensive income for the year attributable to the owners of the parent		**2,871**	**4,364**	**7,235**	3,758	3,299	7,057
Basic and diluted earnings per share	7	**55.6p**	**84.4p**	**140.0p**	72.7p	63.8p	136.5p

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

as at 31 December 2015

	Note	2015 £'000	2014 £'000	2013 £'000
Assets				
Non-current assets				
Investment property	8	**57,964**	46,523	39,415
Equity investments at fair value through profit or loss	9	**3,155**	4,532	5,227
Total non-current assets		**61,119**	51,055	44,642
Current assets				
Trade and other receivables	10	**641**	415	422
Cash and cash equivalents		**4,852**	2,039	3,128
Total current assets		**5,493**	2,454	3,550
Total assets		**66,612**	53,509	48,192
Liabilities				
Current liabilities				
Trade and other payables	11	**1,664**	1,312	1,160
Total current liabilities		**1,664**	1,312	1,160
Non-current liabilities				
Interest bearing loan	12	**11,500**	4,000	4,000
Deferred tax liabilities	13	**425**	495	604
Total non-current liabilities		**11,925**	4,495	4,604
Total liabilities		**13,589**	5,807	5,764
Net assets		**53,023**	47,702	42,428
Equity				
Issued share capital	14	**1,292**	1,292	1,292
Revaluation reserve – property		**14,764**	11,332	7,353
– other		**667**	1,335	1,972
Capital redemption reserve		**95**	95	95
Realised capital reserve		**25,586**	24,785	24,220
Retained earnings		**10,619**	8,863	7,496
Total equity attributable to the owners of the parent		**53,023**	47,702	42,428

These financial statements were approved by the board of directors on 22 March 2016.

Simon Gill
John Hewitt
Directors

Company number – 00224271

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

Consolidated statement of changes in equity

2015	**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 2015	1,292	11,332	1,335	95	24,785	8,863	47,702
Dividends	–	–	–	–	–	(1,914)	(1,914)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	–	4,765	(278)	–	–	(4,487)	–
Tax on revaluation gains/(losses)	–	–	14	–	–	(14)	–
Realised gains	–	–	–	–	364	(364)	–
Surplus attributable to assets sold in the year	–	(33)	(404)	–	437	–	–
Excess of cost over revalued amount taken to retained earnings	–	(1,300)	–	–	–	1,300	–
Transactions with owners	–	3,432	(668)	–	801	(5,479)	(1,914)
Total comprehensive income for the year	–	–	–	–	–	7,235	7,235
At 31 December 2015	**1,292**	**14,764**	**667**	**95**	**25,586**	**10,619**	**53,023**

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

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 cashflows

for the year ended 31 December 2015

		2015 £'000	2014 £'000
Operating activities			
Profit before tax on ordinary activities		**7,165**	6,953
Adjustments for:			
Net valuation gains on investment property		**(4,765)**	(3,635)
Net gain on disposal of investment property		**(418)**	(937)
Net loss on investments		**415**	375
Finance income		**(7)**	(8)
Finance expense		**365**	178
Operating cashflow before changes in working capital and provisions		**2,755**	2,926
(Increase)/decrease in trade and other receivables		**(226)**	7
Increase in trade and other payables		**352**	152
Cash generated from operations		**2,881**	3,085
Finance income		**7**	8
Finance expense		**(365)**	(178)
Income taxes paid		**–**	(5)
Net cashflows from operating activities		**2,523**	2,910
Investing activities			
Purchase of non-current assets	– investment property	**(8,590)**	(6,084)
	– equity investments	**(7)**	(649)
Sale of non-current assets	– investment property	**2,332**	3,548
	– equity investments	**969**	969
Net cashflows from investing activities		**(5,296)**	(2,216)
Financing activities			
Dividends paid		**(1,914)**	(1,783)
New bank borrowings		**7,500**	–
Net cashflows from financing activities		**5,586**	(1,783)
Net increase/(decrease) in cash and cash equivalents		**2,813**	(1,089)
Cash and cash equivalents at 1 January 2015		**2,039**	3,128
Cash and cash equivalents at 31 December 2015		**4,852**	2,039

Notes to the consolidated financial statements

for the year ended 31 December 2015

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 2015 comprise the company and its subsidiaries, 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 assets 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. During the year the group purchased a new property asset via the purchase of a limited company. This acquisition has been dealt with in the accounts as an asset purchase as no business processes were purchased as a result of this transaction. The investment property acquired had five tenants already in place. The services that are provided for these tenants are primarily administrative functions and do not meet the definition of processes in IFRS 3.B7.

The directors have assessed that the group is not an investment entity and, therefore, that it is appropriate to produce consolidated accounts. In reaching this conclusion the directors have taken into account that: Highcroft has a separate substantial business activity that involves the active management of its property assets, including lease negotiations, refurbishments and development activities; the investment plans do not include specific exit strategies for the property assets and although Highcroft reports its investments at fair value in accordance with IAS 40, fair value is not the primary measurement tool used by management to evaluate its investments. Other performance indicators are used to evaluate performance and make investment decisions.

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.

There are no standards, amendments and interpretations effective in the year ended 31 December 2015 and adopted for the first time.

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

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 2016 are:

- IFRS 9 'Financial Instruments' (effective 1 January 2018)

This new standard introduces extensive changes to IAS 39 'Financial Instruments: Recognition and Measurement' guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. Management are not in a position to provide quantified information on the impact of IFRS 9 as yet.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

1 Significant accounting policies continued

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiaries: Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited, which are all made up to 31 December 2015, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full. The acquisition of BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited during the year was accounted for as an asset purchase.

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. The aggregate benefit of lease incentives is recognised as a reduction to the income recognised over the lease term on a straight-line basis. 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 when the right to receive the payment is established. 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 properties 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 99.7% of the group's equity investments are quoted and are valued at market price.

Trade and other receivables

Trade and other receivables are recognised at fair value on initial recognition and subsequently at amortised cost. An impairment loss is recognised for the amount by which the receivable's carrying amount is believed to exceed the present value of the future cashflows. 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 EIR 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, who is the chief executive officer. 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 2015

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

	2015 £'000	2014 £'000
Commercial property		
Gross income	**3,402**	3,044
Profit for the year	**7,297**	6,787
Assets	**60,192**	47,622
Liabilities	**12,821**	5,164
Residential property		
Gross income	**33**	35
Profit for the year	**131**	161
Assets	**460**	1,308
Liabilities	**–**	–
Financial assets		
Gross income	**182**	437
Profit for the year	**(193)**	109
Assets	**5,960**	4,579
Liabilities	**768**	643
Total		
Gross rental and dividend income	**3,617**	3,516
Profit for the year	**7,235**	7,057
Assets	**66,612**	53,509
Liabilities	**13,589**	5,807

In 2015 the largest two tenants each represented 11% of gross commercial property income for the year (2014 12% and 10%).

3 Administrative expenses

	2015 £'000	2014 £'000
Directors (note 4)	**377**	306
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**30**	21
Fees payable to the company's auditor for other services:		
– taxation compliance services	**8**	12
– audit related assurance services	**1**	1
Other expenses	**117**	92
	533	432

In addition, £10,000 (2014 £nil) was paid to the auditor for taxation advice on the acquisition of the new subsidiaries. These costs have been capitalised.

4 Directors

	2015 £'000	2014 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**338**	275
Social security costs	**39**	31
	377	306

The average number of employees, all of whom, other than a part-time bookkeeper, were directors, of the group during the year was five (2014 five). 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

	2015 £'000	2014 £'000
Current tax:		
On revenue profits	**(13)**	(65)
On capital profits	**(43)**	(51)
Prior year under-provision on capital profits	**–**	5
	(56)	(111)
Deferred tax (note 13)	**14**	7
Income tax credit	**(70)**	(104)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2014 21.5%).

The differences are explained as follows:

	2015 £'000	2014 £'000
Profit before tax	**7,165**	6,953
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2014 21.5%)	**1,433**	1,495
Effect of:		
Tax exempt revenues	**33**	(64)
Profit not taxable as a result of REIT status	**(1,635)**	(1,611)
Chargeable gains more than accounting profit	**56**	116
Losses carried forward	**57**	(36)
Effect of change in tax rate on deferred tax liability	**(14)**	(9)
Adjustments to tax charge in respect of prior periods	**–**	5
Income tax credit	**(70)**	(104)

6 Dividends

In 2015 the following dividends have been paid by the company:

	2015 £'000	2014 £'000
2014 Final: 22.75p per ordinary share (2013 21.25p)	**1,175**	1,098
2015 Interim: 14.30p per ordinary share (2014 13.25p)	**739**	685
	1,914	1,783

On 22 March 2016 the directors declared a property income distribution of £1,266,000, 24.50p per share (2014 £1,176,000, 22.75p per share) payable on 3 June 2016 to shareholders registered at 6 May 2016.

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

7 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £7,235,000 (2014 £7,057,000) and on 5,167,240 shares (2014 5,167,240), which is the weighted average number of shares in issue during the year ended 31 December 2015 and throughout the period since 1 January 2014. 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 £2,871,000 (2014 £3,758,000) has been calculated.

	2015 £'000	2014 £'000
Earnings:		
Basic profit for the year	**7,235**	7,057
Adjustments for:		
Net valuation gains on investment property	**(4,765)**	(3,635)
Losses on investments	**415**	375
Income tax on losses	**(14)**	(39)
Adjusted earnings	**2,871**	3,758
Per share amount:		
Earnings per share (unadjusted)	**140.0p**	136.5p
Adjustments for:		
Net valuation gains on investment property	**(92.2p)**	(70.3p)
Losses on investments	**8.0p**	7.2p
Income tax on losses	**(0.2p)**	(0.7p)
Adjusted earnings per share	**55.6p**	72.7p

8 Investment property

	2015 £'000	2014 £'000	2013 £'000
Valuation at 1 January	**46,523**	39,415	31,609
Additions	**8,590**	6,084	8,488
Disposals	**(1,914)**	(2,611)	(1,925)
Revaluation gains	**4,765**	3,635	1,243
Valuation at 31 December	**57,964**	46,523	39,415

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 2015, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements.

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

At 31 December 2015 one investment property with a carrying amount of £1,275,000 (2014 £1,350,000) is charged to Lloyds Bank plc to provide security for any future borrowings. In addition, six investment properties with a carrying amount of £24,020,000 (2014 two properties with a valuation of £9,325,000) 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:

	2015 £'000	2014 £'000	2013 £'000
Less than one year	**3,637**	2,810	2,764
Between one and five years	**12,552**	10,318	8,312
More than five years	**16,374**	13,956	13,819
	32,563	27,084	24,895

Property operating expenses are all analysed as arising from generating rental income.

9 Equity investments at fair value through profit or loss

	2015 £'000	2014 £'000	2013 £'000
Valuation at 1 January	**4,532**	5,227	5,713
Additions	**7**	649	127
Disposals	**(1,038)**	(1,205)	(1,236)
(Deficit)/surplus on revaluation in excess of cost	**(277)**	(65)	610
Revaluation decrease below cost	**(71)**	(76)	(4)
Revaluation increase still less than cost	**2**	2	17
Valuation at 31 December	**3,155**	4,532	5,227

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

	2015 £'000	2014 £'000	2013 £'000
Realised gains on equity investments	**12**	14	179
Revaluation gains on equity investments	**75**	217	653
	87	231	832
Realised losses on equity investments	**80**	250	33
Revaluation losses on equity investments	**422**	356	30
	502	606	63

10 Trade and other receivables

	2015 £'000	2014 £'000	2013 £'000
Trade receivables	**46**	18	141
Bad debt provision	**–**	–	–
Net trade receivables	**46**	18	141
Accrued rent receivable	**553**	365	271
Other receivables	**42**	32	10
	641	415	422

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 2015 amounts due from tenants which were more than 90 days overdue, which related to rents for 2015 or earlier, totalled £nil (2014 £nil). Provisions against these overdue amounts totalled £nil at the beginning of the year (2014 £nil).

Accrued rent receivable arises from the IFRS treatment of rent free periods is due to the recognition of rental income on a straight-line basis over the lease term, with the difference between this and the cash receipt being included as a debtor. Once the rent free periods have expired, the debtor will reduce to £nil over the relevant lease terms. During the year £39,000 of the balance at 31 December 2014 (2014 £1,000) was written off to commercial rental income as the relevant property was disposed of.

11 Trade and other payables

	2015 £'000	2014 £'000	2013 £'000
Deferred income	**838**	683	661
Social security and other taxes	**336**	288	238
Other payables	**490**	341	261
	1,664	1,312	1,160

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

12 Interest bearing loan

	2015 £'000	2014 £'000	2013 £'000
Medium-term bank loans	**11,500**	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	**4,000**	–	–
Over five years	**7,500**	4,000	4,000
	11,500	4,000	4,000

The average effective interest rate is 4.10% (2014 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% (2014 20%; 2013 21%).

	2015 £'000	2014 £'000	2013 £'000
At 1 January	**495**	604	609
Realised in the year	**(56)**	(116)	(48)
(Released)/provided in the year	**(14)**	7	43
At 31 December	**425**	495	604

14 Share capital

	2015 £'000	2014 £'000	2013 £'000
Allotted, called up and fully paid 5,167,240 (2014 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 £11,500,000 of medium-term debt at 31 December 2015 (2014 £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 2015 or at 31 December 2014.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2015 or 31 December 2014.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2014 27.2%) 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:

	2015 £'000	2014 £'000
Transactions by the company:		
Property income distribution paid to related party	**521**	454
Rent paid to related party	**14**	14
Transactions by Rodenhurst Estates Limited:		
Repairs to properties paid to related party	**5**	–

The company owns 100% of Rodenhurst Estates Limited and of BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited. The transactions between these companies have been eliminated on consolidation. Details of the net assets and profit for the financial year of these companies are set out on page 50 of this annual report.

17 Related party transactions continued

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:

	2015 £'000	2014 £'000
John Hewitt	**7**	7
David Kingerlee	**33**	31
Roberta Miles	**1**	1

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 (i.e. as prices) or indirectly (i.e. 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 (2014 none). The change in fair value for the current and previous year 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.

	2015			2014		
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**	**1,831**	**1,835**	4	1,823	1,827
Opening unrealised gain	**5**	**2,692**	**2,697**	5	3,395	3,400
Opening fair value at 1 January	**9**	**4,523**	**4,532**	9	5,218	5,227
Additions at cost	**–**	**7**	**7**	–	491	491
Disposal proceeds	**–**	**(970)**	**(970)**	–	(969)	(969)
Net loss realised on disposal	**–**	**(68)**	**(68)**	–	(235)	(235)
Change in fair value in the year on assets held at 31 December	**–**	**(347)**	**(347)**	–	(139)	(139)
Closing fair value at 31 December	**9**	**3,145**	**3,154**	9	4,366	4,375
Closing cost	**4**	**1,204**	**1,208**	4	1,831	1,835
Closing unrealised gain	**5**	**1,941**	**1,946**	5	2,692	2,697
At 31 December	**9**	**3,145**	**3,154**	9	4,523	4,532

Notes to the consolidated financial statements continued

for the year ended 31 December 2015

18 Financial instruments and financial risk continued

Categories of financial instruments	2015 Carrying amount £'000	2015 Income/ (expense) £'000	2014 Carrying amount £'000	2014 Income/ (expense) £'000
Financial assets designated at fair value through profit and loss:				
Equity investments	**3,155**	**(347)**	4,532	(139)
Loans and receivables:				
Trade and other receivables	**641**	**–**	415	–
Cash and cash equivalents	**4,852**	**–**	2,039	–
	5,493	**–**	2,454	–
Financial liabilities measured at amortised cost:				
Interest bearing loans	**11,500**	**–**	4,000	–
Trade and other payables	**490**	**–**	341	–
	11,990	**–**	4,341	–

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 2015 the group had £11,500,000 (2014 £4,000,000) of medium-term borrowing, of which £4,000,000 is repayable in 2020 and £7,500,000 in 2022 at fixed interest rates averaging 4.10% (2014 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 holdings being spread by both geography and sector.

Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for doubtful receivables, estimated by the directors. The allowance as at 31 December 2015 was £nil (2014 £nil). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2015 as summarised in the table above.

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, i.e. the risk that it might encounter difficulty in meeting its obligations as they fall due, 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. The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cashflows.

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.

18 Financial instruments and financial risk continued

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 39.1% (2014 38.8%) of the equity investments are 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.

Borrowing facilities

The group has no undrawn committed borrowing facilities.

19 Net assets per share

	2015	2014
Net assets	**£53,023,000**	£47,702,000
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**1026p**	923p

20 Subsequent events

On 22 January 2016 the group completed the sale of its Kingston retail property realising gross proceeds of £1,125,000.

Company statement of financial position

as at 31 December 2015

	Note	2015 £'000	2015 £'000	Restated 2014 £'000	Restated 2014 £'000
Fixed assets					
Investments	5		**51,710**		47,310
Current assets					
Debtors	6	**6**		973	
Cash at bank		**2,802**		46	
		2,808		1,019	
Creditors – amounts falling due within one year	7	**1,070**		276	
Net current assets			**1,738**		743
Total assets less current liabilities			**53,448**		48,053
Provision for liabilities	8		**425**		495
Net assets			**53,023**		47,558
Capital and reserves					
Called up share capital	9		**1,292**		1,292
Reserves					
– Realised capital		**7,008**		6,715	
– Capital redemption		**95**		95	
– Revaluation		**39,469**		34,387	
– Retained earnings		**5,159**		5,069	
			51,731		46,266
Shareholders' funds	10		**53,023**		47,558

These financial statements were approved by the board of directors on 22 March 2016.

Simon Gill
John Hewitt
Directors

Company number – 00224271

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

Company statement of changes in equity

for the year ended 31 December 2015

2015	**Note**	**Share capital £'000**	**Realised capital reserve £'000**	**Capital redemption reserve £'000**	**Revaluation reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2015		1,292	6,715	95	34,387	5,069	47,558
Profit and total comprehensive income for the period	2	-	-	-	-	7,434	7,434
Dividends paid		-	-	-	-	(1,914)	(1,914)
Revaluation loss equities		-	-	-	(347)	347	-
Revaluation gain of subsidiaries		-	-	-	5,777	(5,777)	-
Realised gains		-	(55)	-	-	-	(55)
Tax on realised gains		-	(56)	-	56	-	-
Surplus attributable to assets sold in the year		-	404	-	(404)	-	-
Balance at 31 December 2015		**1,292**	**7,008**	**95**	**39,469**	**5,159**	**53,023**

2014	Note	Share capital £'000	Realised capital reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2014		1,292	6,451	95	29,925	4,572	42,335
Profit and total comprehensive income for the period restated	13	-	-	-	-	7,191	7,191
Dividends paid		-	-	-	-	(1,783)	(1,783)
Revaluation loss equities		-	-	-	(139)	139	-
Revaluation gain of subsidiary		-	-	-	5,050	(5,050)	-
Realised gains		-	(185)	-	-	-	(185)
Tax on realised gains		-	(116)	-	116	-	-
Surplus attributable to assets sold in the year		-	565	-	(565)	-	-
Balance at 31 December 2014		1,292	6,715	95	34,387	5,069	47,558

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.

Notes to the company financial statements

for the year ended 31 December 2015

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and with the Companies Act 2006. The financial statements have been prepared under the historical cost convention except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. This is the first year in which the financial statements have been prepared under FRS 102 and the effects of the transition are set out in note 13. The principal accounting policies of the company have remained unchanged from the previous year other than in respect of deferred tax, where the liability is now provided in the financial statements and presented within provisions for liabilities.

In preparing these financial statements the following disclosure exceptions have been taken:

- the requirement to present a cashflow and related notes
- financial instrument disclosures including:
  - — categories of financial instruments;
  - — items of income, expenses, gains or losses relating to financial instruments; and
  - — exposure to, and management of, financial risks.

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 company may receive dividends in the form of shares rather than cash. In such cases, the company recognises the dividend income for the amount of cash dividend alternative with a corresponding increase in cost of investments.

Interest income

Interest is recognised under the effective interest method.

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 undertakings – at market value (net assets as shown by their financial statements are taken as a reasonable estimate of market value as their assets and liabilities are carried at fair value).
- equity investments (99.7% 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 in respect of all timing differences at the reporting date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are presented within provisions for liabilities.

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 £7,434,000 (2014 restated (note 13) £7,191,000). Information regarding directors' remuneration appears on pages 20 to 23 of this annual report.

3 Auditor's fees

	2015 £'000	2014 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**30**	21
Fees payable to the company's auditor for other services:		
Taxation compliance services	**6**	5
Audit related assurance services	**1**	1
	37	27

4 Dividends

In 2015 the following dividends have been paid by the company:

	2015 £'000	2014 £'000
2014 Final: 22.75p per ordinary share (2013 21.25p)	**1,175**	1,098
2015 Interim: 14.3p per ordinary share (2014 13.25p)	**739**	685
	1,914	1,783

On 22 March 2016 the directors declared a property income distribution of £1,266,000, 24.50p per share (2014 £1,176,000, 22.75p per share) payable on 3 June 2016 to shareholders registered at 6 May 2016.

5 Investments

	Total	Shares in subsidiary undertaking	Other investments	
			Listed	Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2015	47,310	42,778	4,523	9
Additions at cost	7	–	7	–
Disposals	(1,037)	–	(1,037)	–
Surplus/(deficit) on revaluation in excess of cost	5,499	5,777	(278)	–
Revaluation decrease below cost	(71)	–	(71)	–
Revaluation increase still less than cost	2	–	2	–
Valuation at 31 December 2015	**51,710**	**48,555**	**3,146**	**9**

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

	Total	Shares in subsidiary undertaking	Other investments	
			Listed	Unlisted
	£'000	£'000	£'000	£'000
Cost at 31 December 2015	**11,479**	**10,271**	**1,204**	**4**
Cost at 31 December 2014	12,106	10,271	1,831	4

At 31 December 2015 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. In turn, Rodenhurst Estates Limited owned 100% of the allotted ordinary share capital and voting rights of BL (Wisbech) Limited, which is a holding company registered in England and Wales and operating in England. In turn, BL (Wisbech) Limited owned 100% of the allotted ordinary share capital and voting rights of Belgrave Land (Wisbech) Limited, a property owning company registered in England and Wales and operating in England. The shares of BL (Wisbech) Limited and its subsidiary Belgrave Land (Wisbech) Limited were acquired on 14 May 2015.

Notes to the company financial statements continued

for the year ended 31 December 2015

5 Investments continued

At 31 December 2015 the net assets and the profit for the financial year of these subsidiaries were:

	2015		2014	
	Net assets £'000	Profit for the financial year* £'000	Net assets £'000	Profit for the financial year* £'000
Rodenhurst Estates Limited	48,555	7,218	42,778	3,414
BL (Wisbech) Limited	–	–	n/a	n/a
Belgrave Land (Wisbech) Limited	3,780	1,296	n/a	n/a

*or period of ownership if shorter

6 Debtors

	2015 £'000	2014 £'000
Owed by subsidiary undertaking	–	970
Other debtors	6	3
	6	973

7 Creditors — amounts falling due within one year

	2015 £'000	2014 £'000
Owed by subsidiary undertaking	730	–
Other taxes and social security	29	23
Other creditors	311	253
	1,070	276

8 Provision for liabilities — deferred taxation

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% (2014 20%; 2013 21%)

	2015 £'000	2014 £'000
At 1 January	495	604
Additions	–	7
Utilised	(56)	(116)
Reversals	(14)	–
At 31 December	425	495

9 Share capital

	2015 £'000	2014 £'000
Allotted, called up and fully paid 5,167,240 (2014 5,167,240) ordinary shares of 25p each	1,292	1,292

10 Capital commitments

There were no capital commitments at 31 December 2015 or at 31 December 2014.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2015 or at 31 December 2014.

12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2014 27.2%) 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:

	2015 £'000	2014 £'000
Property income distribution paid to related party	**521**	454
Rent paid to related party	**14**	14

Under the provisions of section 33 FRS 102, transactions between Highcroft Investments PLC and its subsidiaries Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited are exempt from these disclosure requirements as they are all wholly owned subsidiaries.

13 Transition to FRS 102

The company has adopted FRS 102 for the year ended 31 December 2015 and has restated the comparative prior year amounts.

Deferred tax on investments recognised at fair value is now provided for in the financial statements rather than being disclosed as an unprovided amount.

Reconciliations

Restated company statement of financial position	31 December 2014 £'000	1 January 2014 £'000
Original shareholders' funds	48,053	42,939
Deferred tax on instruments at fair value (note 8)	(495)	(604)
	47,558	42,335

Restated profit for the year ended 31 December 2014	£'000
Original company profit on ordinary activities after tax	2,148
Change in fair value of investment in subsidiary taken through profit and loss	5,050
Deferred tax on instruments at fair value	(7)
	7,191

Group five year summary (unaudited)

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Investment properties – at annual valuation	**57,964**	46,523	39,415	31,609	30,787
Equity investments – at market value	**3,155**	4,532	5,227	5,713	5,598
Total net assets	**53,023**	47,702	42,428	39,241	37,223
Net asset value per share in issue at end of each year	**1026p**	923p	821p	759p	720p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**3,435**	3,079	2,731	2,351	2,129
Dividend income	**182**	437	233	251	261
Profit available for distribution	**2,871**	3,758	2,921	3,720	2,066
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**137.8p**	136.5p	94.0p	69.6p	33.4p
Adjusted earnings per ordinary share	**55.6p**	72.7p	56.5p	72.0p	40.1p
Dividends payable per ordinary share	**38.8p**	36.0p	33.75p	31.8p	30.0p
FTSE 350 Real Estate Index	**588**	543	469	394	314
Highcroft year-end share price	**987.5p**	855p	720p	590p	465p

Directors and advisers

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00224271

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Simon Costa, BSSc MA MPhil
(Non-executive)
Simon Gill, BSc FRICS
(Chief executive)
David Kingerlee
(Executive)
Roberta Miles, MA FCA
(Finance)

Company secretary
Roberta Miles, MA FCA

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