Highcroft
Investments PLC

Annual Report and Financial Statements
For the year ended 31 December 2016

www.highcroftplc.com
Stock code: HCFT

- ✓ Shareholder Focused
- ✓ Market Aware
- ✓ Opportunity Driven

Welcome to the **Highcroft Investments** Annual Report 2016

Who we are

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

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

Our Strategy

The objective of the group is to enhance shareholder value through a combination of increasing net asset value, profits and dividends.

We deliver our strategy by leveraging our strengths:

- ✓ An experienced team
- ✓ Financial strength
- ✓ High quality property assets
- ✓ Low gearing

We ensure that we are a sustainable business through our culture of being:

✓ Shareholder Focused

Our actions are centred on our shareholders; investments are considered in order to execute our strategy and increase shareholder value.

✓ Market Aware

Understanding the industry we operate within enables us to invest in specific areas and sectors to generate maximum value.

✓ Opportunity Driven

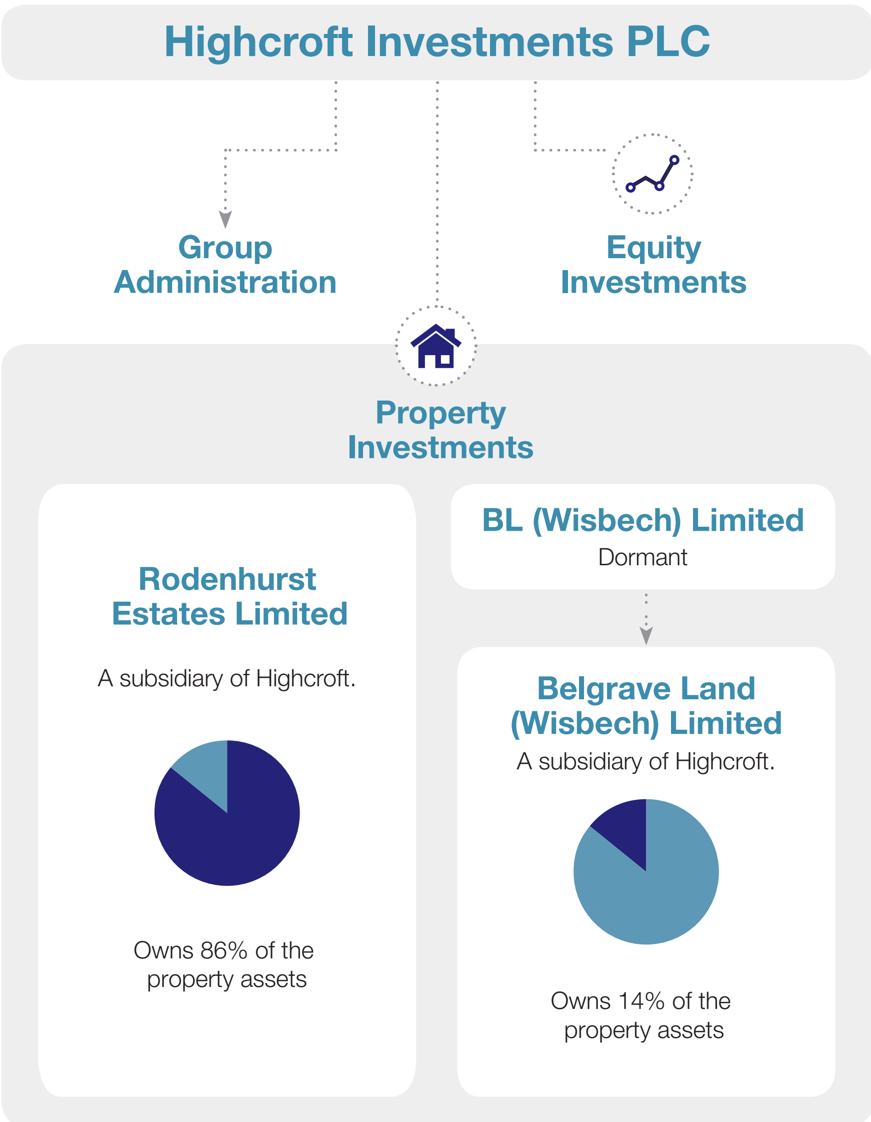
We are able to identify and react quickly to market opportunities in order to deliver returns above the industry average.

Look out for these icons throughout the **Strategic Report** to see how our culture shapes the business

Our structure

Highcroft Investments PLC has a simple group structure

The property owning subsidiaries, Rodenhurst Estates Limited and Belgrave Land (Wisbech) Limited, are wholly owned and carry out the management and administration of the property assets on behalf of the group.



Benefits

The simple structure enables different parts of the operation to be managed separately whilst keeping overheads, including professional fees, at a low level.

Read about **Our business model** on page 7

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Highcroft Investments online

View more information at:
www.highcroftplc.com

Financial highlights

Property income distribution

41.00p ↑5.7%

2016	41.00p
2015	38.80p
2014	36.00p
2013	33.75p
2012	31.80p

Net assets per share

1071p ↑4.4%

2016	1071p
2015	1026p
2014	923p
2013	821p
2012	759p

Gross income from property

£3.906m ↑13.7%

2016	£3.906m
2015	£3.435m
2014	£3.079m
2013	£2.731m
2012	£2.351m

Property valuation

£65.997m ↑13.9%

2016	£65.997m
2015	£57.964m
2014	£46.523m
2013	£39.415m
2012	£31.609m

Net rental income

£3.708m ↑19.4%

2016	£3.708m
2015	£3.106m
2014	£2.921m
2013	£2.580m
2012	£2.167m

Total earnings per share

84.0p ↓40%

2016	84.0p
2015	140.0p
2014	136.5p
2013	94.0p
2012	69.6p

Occupancy in our portfolio

100%

2016	100.0%
2015	100.0%
2014	100.0%
2013	100.0%
2012	100.0%

Net debt

£11.531m ↑73.5%

2016	£11.531m
2015	£6.648m
2014	£1.961m
2013	£0.872m
2012	(£3.274m)

Operational highlights

In 2016 we continued our confident approach in what we considered a cautious and uncertain market. Our search for well-let secure investments to provide good long-term income streams did not alter in spite of the nervousness witnessed amongst many investors in the market.

Simon Gill
Chief executive

A solid performance

We are pleased with the group's performance and our performance against our strategy. As evidenced on page 2 good progress was made in all key areas:

— Property income distribution rose by 5.7% to 41.00 pence, well in excess of inflation;

— Net assets per share increased by 4.4%;

— Gross income from property rose by 13.7% and net property income rose by 19.4%;

— Property valuation rose by 13.9%.

Read about **Our performance** on pages 8-9

2016 property acquisitions and disposals

Acquisitions

During 2016 we acquired two properties. Firstly, two retail warehouses in Grantham let to B&Q PLC and Marks & Spencer PLC for £6.9m and secondly a multi-let leisure unit in Coventry let to three food outlets for £2.4m.

Read more on pages 14 and 15

Disposals

We disposed of four property interests in the year. Our retail unit in Kingston, our industrial unit in Warwick and two occupied residential units. In addition, we granted a lease extension on one residential flat.

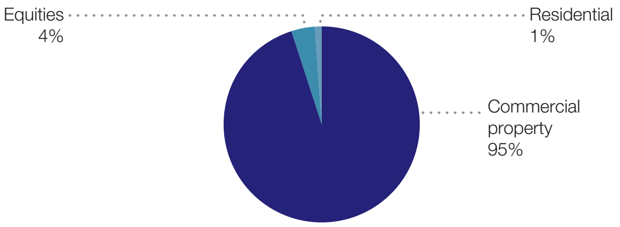
Read more on pages 14 and 16

Pictured: B&Q - part of our Grantham acquisition

Pictured: Kingston

Group at a glance

Total assets %



Our property assets

Our property assets are valued at £65,997,000 and our equity investments at £2,469,000. During the year our property assets increased in value by 2.7% on a like-for-like basis and by 13.9% taking into account our acquisitions and disposals during the year.

Commercial property

		£'000
1	Retail park in Wisbech let to Dunelm, Currys PC World, Carpetright, Halfords and Pets at Home	9,000
2	Retail warehouse in Grantham let to M&S and B&Q	7,100
3	Retail warehouse in Bicester let to Wickes	6,700
4	Warehouse in Milton Keynes let to Ikea	4,000
5	Warehouse in Ash Vale, Aldershot let to SIG Trading	3,835
6 7	Two retail units in Oxford let to Jigsaw	3,830
8	Office building in Cardiff let to Arriva Trains	3,600
9	Warehouse in Andover let to Jewsons	3,300
10	Radio station and office building in Oxford let to the BBC	3,000
11	Distribution centre in Kidlington, Oxfordshire let to Parcelforce	3,000
12	Retail warehouse in Crawley let to Pets at Home	2,900

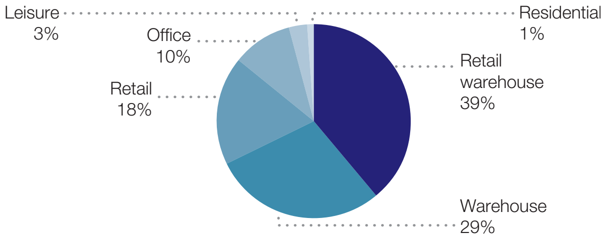
		£'000
13	Distribution centre in Southampton let to Metabo	2,515
14	Warehouse in Bedford let to Booker	2,415
15	Multi-let leisure unit in Coventry	2,275
16	Multi-let retail units in Staines, with offices above	2,258
17	Multi-let retail units in Cirencester, with residential above	1,650
18	Retail unit in Leamington Spa let to Mint Velvet	1,635
19	Retail unit in Norwich let to Harriets Tea Rooms	1,200
20	Retail unit in Oxford let to Britannia Building Society	1,200
	Total commercial	**65,413**
	Residential property	**584**
	Total	**65,997**

Some of our tenants

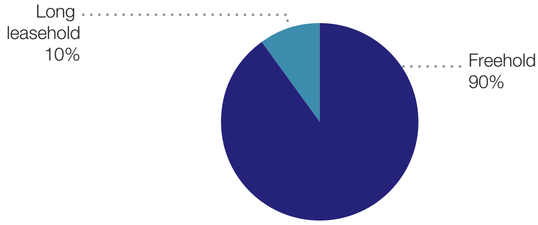
Property investments

We own 20 commercial properties, predominantly in southern England.

Split by sector %



Tenure %



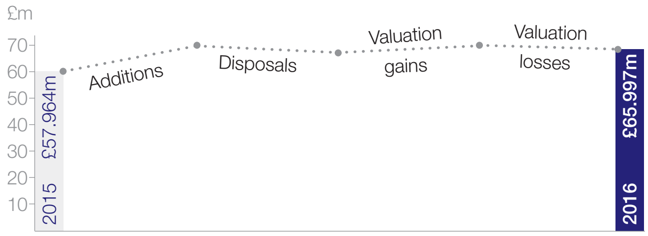
Investment properties at annual valuation

£65.997m ↑13.9%

2016	£65.997m
2015	£57.964m
2014	£46.523m
2013	£39.415m
2012	£31.609m

Movements in property asset value

↑13.9%



Weighted average lease length

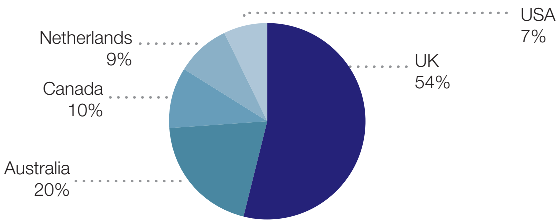
>5 years	88.3%
2-5 years	10.9%
1-2 years	0.7%
<1 years	0.2%

Weighted average lease length

2016	8.5 years
2015	8.7 years
2014	8.5 years
2013	8.1 years
2012	6.8 years

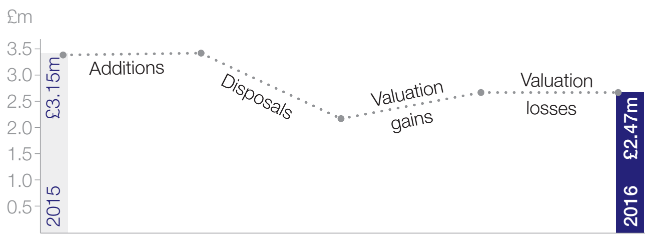
Equity investments

Geographical split %



Movements in equities' value

↓21.7%



Our marketplace

Macroeconomic landscape

The commercial property market experienced a tumultuous year in 2016 largely due to pre and post Brexit sentiment. The uncertain outcome to the Brexit negotiations is likely to lead to slower economic growth which in turn may take some of the steam out of the property market. Inflation will become a prominent risk factor due to a weaker pound and a tighter labour market but the UK's fundamentals remain strong which, we believe, will result in a strong appetite for UK property.

Brexit

The UK's £900 billion commercial property market was one of the biggest markets to suffer in the turmoil which followed the decision to leave the European Union in the referendum in June. Many of the largest funds suspended trading due to the rush of investors seeking to withdraw their money. However, investor appetite has since returned with renewed vigour, particularly from overseas where investors are taking advantage of a weaker pound. Many of the funds have reopened and property valuers have dropped the Brexit uncertainty clauses from their valuation reports.

Overall, the IPD Real Estate index reported a drop in capital values for 2016 of 0.8% and a total return of circa 3.9%.

The commercial property market

The EU referendum has not had the impact most people feared; after the declines witnessed in July and August prices have held firm and, in certain sectors, have improved with the inflow of money from overseas investors. Quality properties let to good covenants on long leases are still competitively sought. The market is, however, having to adapt to shorter term leases because of a weak occupational market due to an uncertain trading future, new accounting policies and the new business rate regime.

The competitive landscape

There is still strong demand for well-secured commercial property investments, fuelled by record low interest rates and the lack of suitable alternative investment markets. Competition from overseas investors who took advantage of exchange rates, and the opportunity given to local authorities which in many cases could obtain cheap borrowings at less than 2% to invest in commercial property, led to aggressive buying in the second half of 2016. The last quarter witnessed a further increase in activity when the larger funds reopened for business.

Significant market trends

Whilst there has been a slight recovery in certain areas the high street sector is still suffering and, along with secondary offices, is the least preferred investment sector. The continuing strength of internet shopping is likely to impact further on this sector with the exception of university and tourist towns/cities.

The industrial sector was the strongest performer of 2016 and looks set to be the same for this year. Central London offices are expected to be impacted by EU divorce proceedings and the year ahead is anticipated to be another one of ups and downs.

It is anticipated that UK institutions which held back on investment decisions in the aftermath of the Brexit vote will gradually return to the market.

✓ Market aware

What this means for Highcroft

The directors at Highcroft constantly monitor the market and liaise closely with all of their advisers in order to be fully apprised of market trends and fluctuations. This is important in order to maintain the property valuations and income stream and to assess when is the right time to either sell a certain property, due to a possible future decline in value or to buy a new investment which has good growth prospects.

✓ Opportunity driven

Our response to these trends

It is not the directors' aim to follow market trends slavishly but rather to assess what is best for Highcroft's shareholders on a long-term basis. Our small but efficient team has the ability to react and respond quickly enabling us to take advantage of an opportunity ahead of our competitors. We are able to look at opportunistic deals rather than be directed by an analyst or research team.

Our business model

Our inputs

Experienced people

Financial strength and low gearing

High quality property assets

✓ Opportunity driven

What we do

We invest predominantly in commercial property within southern England and Wales, areas we believe offer the most opportunity

✓ Market aware

Asset management

We sell underperforming assets when the market is in a period of growth, maximising returns, and reinvest the proceeds ensuring that our portfolio is as profitable as possible in the changing marketplace

✓ Shareholder focused

Our key activities

We increase shareholder value through strong revenue streams and capital appreciation

Capital appreciation

We increase the value of our assets through:

Acquisition

Disposal and reinvestment

Development

Refurbishment

Strong revenue streams

We sustain income through:

Letting our properties to commercial tenants on long leases

Managing our properties ensuring we continually meet the needs of our tenants

The value we generate

Shareholders

Strong returns on investment, growing revenue streams, growing dividend payments and capital appreciation

Tenants

Appropriate managed space for their operations, offered on long leases

Society

We provide large employers with the vital space for their operations, thus bringing employment and economic prosperity to the communities where our properties are situated

Our business model and structure

Our method of value generation is simple: we aim to maximise our return for shareholders, primarily via an increase in dividend. We endeavour to operate a countercyclical model, buying when the market is low, generating rental income and selling, if appropriate, when the market is high in order to maximise cash to reinvest. We use a combination of our key resources in order to select the best opportunities within our chosen market segments, redevelop and refurbish in order to increase the value of the property, thus allowing us to demand higher rental incomes. We let our properties out on long leases, guaranteeing consistent income for our shareholders.

Our key resources and competitive advantage

People

We are a small team with diverse skill sets. Our knowledge and understanding of the marketplace informs decisions. As a source of competitive advantage, the talent of our staff is integral in prudent decision making, ensuring the outcomes of our investments are prosperous.

Financial strength

We have a low level of gearing for a company investing in property. Our conservative capital structure and track record of delivering strong returns make us a lower risk investment than others.

Our tenants

Our tenants are diverse companies with wide ranging requirements. As shown on page 4, they are mainly large commercial companies requiring property on long-term leases.

Our strategy and Key Performance Indicators (KPIs)

The objective of the group is to enhance shareholder value via a combination of increasing net asset value, profits and dividends. We set clear strategic priorities against which we measure our performance.

Strategic priority	How this priority will help us achieve our overall objective	Progress in 2016	Future opportunities
A Continue to grow our commercial property portfolio with a bias towards the south of England and Wales.	The directors regard commercial assets in these geographical areas as being best placed to outperform the market in any cycle. These locations are also considered relatively low risk and fit our risk profile.	Our new acquisitions in Coventry and Grantham and disposals of our Kingston and Warwick assets have resulted in a larger portfolio which retains the preferred geographical bias.	As asset sourcing becomes even more challenging in 2017 the geographical spread may need to be widened to ensure that adequate yields are maintained, without increasing the inherent risk to an unacceptable level.
B Increase the average lot size.	As many costs are directly related to the number of assets rather than their size, increasing the average lot size should reduce average property costs thus increasing the net property income available for distribution.	Average lot size increased to £3.3m from £2.9m in 2015 and £1.5m in 2012.	Future growth will come from revaluation gains, new assets being bought that are larger lots than our average, and potentially from the disposal of smaller underperforming units.
C Continue to reduce our residential property holdings.	A focus on commercial property will improve net property income. Residential properties of the size that we owned were disproportionately cost and management intensive and there was limited potential future growth.	One tenanted freehold interest sold, one long leasehold tenanted interest sold leaving the freehold interest of one block of flats.	Leasehold enfranchisement process in progress on our remaining asset.
D Continue to reduce the proportion of our assets held in equities and to reinvest in commercial property.	Progress towards becoming a pure REIT will ensure management focus and yield enhancement thus increasing the net property income available for distribution.	£1.2m realised from equities during 2016.	£0.5m of cash released from the equity portfolio in January 2017 and current valuation of remaining portfolio is £2.1m.
E Pursue capital growth opportunities within our property asset base.	Identifying growth opportunities will enable either enhanced sales prices to be achieved, or improved yields.	Planning permission gained for residential development at Staines. Contracts exchanged for the sale at 77% in excess of the December 2015 valuation.	Options are being considered for additional asset management opportunities.
F Use medium-term gearing at a modest level.	The use of keenly priced debt to expand our portfolio should increase our net property income.	£9.9m of acquisitions funded by a combination of £3.4m of new debt, £1.2m from equity disposals, £3.0m from property disposals, and existing cash resources.	We have negotiated headroom with one lender of £10.1m and would consider additional gearing to fund further acquisitions.
G Provide a dividend increase in excess of inflation.	Maintenance of a property income distribution stream that is increasing in real terms is our highest priority for enhancing shareholder value.	Increase in property income distribution payable of 5.7%.	As a REIT we are required to distribute 90% of our relevant net property income.

Shareholder Focused

Our KPIs and how we measure our strategy

Increase value of property assets

£'000 ↑ 13.9%

	£'000
2016	£65,997
2015	£57,964
2014	£46,523
2013	£39,415
2012	£31,609

Link to strategic priorities: A D E

Why this is a measure

The value of our property portfolio and its movement on a like-for-like basis versus the market give a good measure of the performance, and composition, of our assets on a capital basis in the year.

Commentary on performance

The valuation of our property assets has increased by 13.9% and 2.7% on a like-for-like basis against a market decrease of 0.8%. For more details see page 19.

Looking forward

We consider that the sector and geographical spread of our property assets together with their lease lengths and covenant strength result in a portfolio that should perform well.

Increase gross property income

£'000 ↑ 13.7%

	£'000
2016	£3,906
2015	£3,435
2014	£3,079
2013	£2,731
2012	£2,351

Link to strategic priorities: A B C D E F G

Why this is a measure

As a REIT we are required to distribute 90% of our relevant property profits. Increasing gross property income contributes towards an increase in our dividend.

Commentary on performance

During the year there has been a 13.7% increase in gross property income and a 66% increase over the last four years. For more details see page 17.

Looking forward

Gross property income may increase in 2017 through a combination of investment of surplus cash, limited additional gearing and lease events on existing assets.

Increase net asset value per share

Pence ↑ 4.4%

	Pence
2016	1,071p
2015	1,026p
2014	923p
2013	821p
2012	759p

Link to strategic priorities: A

Why this is a measure

Net asset value per share gives a simple, clear, measure of the overall group performance taking into account asset performance, the result for the year and dividends to shareholders. It is a measure of increase in shareholder value.

Commentary on performance

The net asset value per share has increased by 4.4% in the year which, given the overall performance of the property market, is a pleasing result.

Looking forward

Uncertainties arising from Brexit negotiations and foreign currency fluctuations attracting foreign investors into our market will create challenges for us in 2017. However, our asset base is strong and we are well placed to continue to outperform the market.

Increase dividends payable to shareholders

Pence ↑ 5.7%

	Pence
2016	41.00p
2015	38.80p
2014	36.00p
2013	33.75p
2012	31.80p

Link to strategic priorities: G

Why this is a measure

This KPI is directly linked to one of our key strategic priorities of enhancing shareholder value by increasing dividends payable.

Commentary on performance

The increase of 5.7% in the year is significantly in excess of inflation.

Looking forward

It is hoped that in the future dividend increases will remain in excess of inflation.

Our risks

Risk management

The board recognises that risk management is essential for the achievement of the group's strategic objectives and the board is responsible for the system of internal control and the review of its effectiveness. Whilst risk is an inherent part of our business model our general appetite for risk is low.

Our approach to risk management is to identify both the financial and non-financial risks that may prevent the attainment of our strategic objectives, our future performance, solvency or liquidity. We then evaluate the risks and take any appropriate action to reduce or remove the likelihood of these having a material impact. This process is regularly monitored and reviewed.

The audit committee has been delegated responsibility from the board for the assurance of the risk management process. The executive board is responsible for the day-to-day management of risks, which includes the ongoing identification, assessment and mitigation of risks. They are also responsible for the design, implementation and evaluation of the system of internal controls and for ensuring its operational effectiveness. 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. The small size of the management team and regular consideration of risk areas means we are able to respond quickly to changes in the risk environment.

EU referendum

There was a period of uncertainty leading up to the announcement of the result of the EU referendum at the end of June 2016. However we have not, to date, seen any material impact on our tenants. The continued uncertainty surrounding the potential impact of Brexit has created opportunities for the group to acquire quality assets. Our ability to react and, with our advisers, process the required due diligence, approvals and associated finance quickly set us apart from other potential bidders in our acquisition of the Grantham property. There is an ongoing risk that investor and occupier demand could be negatively impacted whilst the Brexit terms are negotiated. However, the strengths of our portfolio – in terms of location, lease lengths, covenants, and sector spread – is expected to minimise the impact of this risk.

Going concern

At 31 December 2016 the group had fixed term non-amortising borrowing of £14,900,000 that expires in the period 2020-2026, and has additional headroom available of £10,100,000. The group does not currently have an overdraft facility and has a relatively low level of gearing of 21%. The group has a secure property income stream from a number of occupiers with no undue reliance on any one tenant.

The group carefully monitors its forecast cashflows in order to ensure an overdraft is not required and it has relatively liquid assets, in the form of listed equity investments, which it can draw on if necessary.

The directors have reviewed the current and projected position of the group and its compliance with debt covenants. They have concluded that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, and that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. On the basis of this review, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Viability statement

In accordance with C.2.2 of the 2014 revision of the UK Corporate Governance Code, the directors have assessed the viability 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 end of the fixed term of our shortest dated debt, giving greater certainty over the forecasting assumptions used.

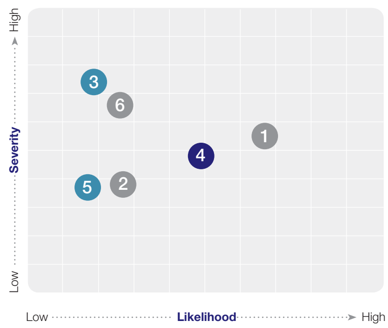
The board considered the group's cashflows including the required cashflows to meet the dividend requirement of the REIT regime, REIT compliance, income profile, loan to value and other key financial metrics. The board has also considered the level of equity and property capital transactions that are 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 10 to 12, 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.

Risk heat map

The diagram below illustrates the relative positioning of our risks in terms of impact and likelihood, and the level of management focus on each.



1 Further economic uncertainty
2 Inappropriate business strategy
3 Failure to meet legislative requirements
4 Inability to source new assets
5 Lack of availability of finance
6 Loss of key personnel

Level of management priority

- Low priority
- Medium priority
- High priority

Principal risks and uncertainties facing the business

The objective of the group is to enhance shareholder value via a combination of increasing net asset value, profits and dividends. We set clear strategic objectives against which we measure our performance:

- A Continue to grow our commercial property portfolio with a bias towards the south of England and Wales
- B Increase the average lot size
- C Continue to reduce our residential property holdings
- D Continue to reduce the proportion of our assets held in equities and reinvest in commercial property
- E Pursue capital growth opportunities within our property asset base
- F Use medium-term gearing at a modest level
- G Provide a dividend increase in excess of inflation

We have reviewed the risks in the year. 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
Risk 1 ***Further economic uncertainty:*** The economy falters or enters a period of uncertainty. **Impact**: Poorer than expected revenue and capital performance. **Link to strategic objectives**: A B G	External factors such as macroeconomic conditions and political risks, including Brexit, are outside of the group's control. 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 investments are biased towards the south of England and Wales and in areas which are considered lower risk. The group spreads its investment risk across a number of sectors (retail, office, retail warehouse, leisure and warehouse). 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. The group spreads its exposure by individual property and covenant so that the risks associated with the default of an individual tenant are minimized. Rent collections are regularly reviewed by our property managers and monitored weekly by the executive directors.	Our property assets have performed well in the period. During 2016 bad debts were nil and we had no voids. Our rent collections were good and arrears are low. The group has 32 commercial tenants and our five largest tenants by current passing rent provide 36% (2015 39%) of current income. During 2016 our market capitalisation reduced due to heightened uncertainty in certain sectors of the equity market.	↑ Real estate values are at risk as the process of exit from the EU commences.
Risk 2 ***Inappropriate business strategy:*** The group has the wrong strategy for the current stage of the property cycle and the economic climate. **Impact**: Reduced group profitability and capital value. **Link to strategic objectives**: A B C D G	Board meetings are held on a regular basis for planning and forecasting for the business. 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 rolling three year forecast.	The group has continued to review its portfolios and considered opportunities to sell assets that appear to have little opportunity for rental or capital growth, and to acquire assets that fit our acquisition criteria.	→

Our risks continued

Risks and impacts	How we manage/mitigate the risk	Commentary	Movement in risk exposure in the period
Risk 3 ***Failure to meet legislative requirements:*** The group fails to meet its REIT requirements. **Impact**: Potential expulsion from the REIT regime, higher costs for the company and reduced dividends for shareholders. **Link to strategic objectives**: G	The board monitors compliance with REIT ratios monthly. We have further reduced the equity portfolio to improve our income and asset ratios. Our gearing and cost of finance are at a level where the interest cover test is not an issue.	Investments are a smaller percentage of our total assets. Other ratios are well within acceptable limits and do not give a cause for concern.	→
Risk 4 ***Inability to source new assets:*** 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. **Link to strategic objectives**: A B D G	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.	Our ability to react swiftly to opportunities created by market uncertainty meant that we were able to source new investment property in 2016. The market, however, remains tough and the availability of suitable assets is low.	↑ The result of the EU referendum and the subsequent currency market movements have encouraged overseas investors into the market.
Risk 5 ***Lack of availability of finance:*** The group is unable to fund investment opportunities at an appropriate cost. **Impact**: Growth of group curtailed and increased cost of funding. **Link to strategic objectives**: F G	The board aims to only 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 2016 to £14.9m (2015 £11.5m). We have headroom with one lender of £10.1m and a number of lenders have expressed interest in lending to the group. Net gearing is a modest 21%.	→
Risk 6 ***Key personnel:*** The group is unable to retain and attract high calibre directors. **Impact**: Negative impact on the group's performance as the team lack the skills necessary to deliver business objectives. **Link to strategic objectives**: A B C D E F G	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. There is an appropriate mix of in-house resource and outsourcing. Succession planning and the composition of the board are regularly reviewed by the nomination committee.	There were no board changes during the year. The remuneration committee has carefully considered the performance related element of remuneration.	→

Corporate social responsibility

Our culture

We strive to conduct our business in an ethical and responsible manner, making a positive contribution to society whilst minimising any negative impacts on people and the environment.

Our stakeholders

Fairness and equality. We value the contributions made by all of our employees and our advisory teams. We aim to select, recruit and develop the best employees and advisers and create an environment where everyone is treated with dignity and respect and where individual differences are valued. We achieve this by; ensuring that there are equal opportunities in recruitment and selection processes, paying fair and competitive salaries and fees and being opposed to any form of discrimination for any reason.

Employee alignment. We align our executive management team with our shareholders via the performance related element of their remuneration. A performance share plan has not been introduced because David Kingerlee, as a member of the management team, would be unable to participate due to the Kingerlee Concert Party restrictions.

Diversity. We believe that a diverse team is an important factor in maximising business effectiveness. We aim to maintain the right blend of skills, experience and knowledge in the board and its advisory teams.

At 31 December 2016 and throughout the year the composition of the group's employees was as follows:

	Male	Female
Directors	4	1
Other staff	-	1
Total	4	2

The environment

We recognise that natural resources are finite and should be used responsibly. We seek to understand the environmental performance of our portfolio and to implement improvement policies where possible. In particular:

- we commission an independent environmental report for all acquisitions. This includes a review of the historic and current site usage and any contamination present;
- during refurbishment projects we ensure that materials are chosen that will not damage either health or the environment. We also ensure that any hazardous materials found to be present are removed safely and in accordance with legislation;
- all sites are visited at least annually by our asset managers and any environmental issues identified are reported to the chief executive immediately and recorded in the managers' quarterly management report;
- all new leases require occupiers to observe relevant environmental regulations; and
- all of our property maintenance suppliers have to be PICS accredited. The vetting, tendering, appointment and ongoing management of these suppliers follows the principles of BS8572: 2011.

Communities we serve

The board consider the impact on the local communities, including neighbouring tenants, when development and refurbishment activity take place. A project manager is used to oversee the work and only approved suppliers are used. Care is taken to ensure that health and safety is taken into account at all stages of the work.

The board also considers the potential impact on the local community and on existing tenants when planning permissions are applied for, and listens to any legitimate concerns raised.

Charity

During 2016 donations were made to local and national charities totalling £11,000. These charities support the sick, the terminally ill and the disadvantaged.

Operating review

‘2016 proved to be an interesting year for the property market, influenced by home and world politics. The EU referendum created a great deal of uncertainty during the year with renewed confidence witnessed in the last quarter, partly due to strong overseas investor demand, aided by the fall in value of the pound, and the promise of stronger economic ties following the US elections. These events did not impact the continuation of our strategy to purchase well-let, quality property investments.’

Simon Gill
Chief executive

Investments

In line with our stated strategy we continue to:

— focus on our commercial property assets;

— sell our residential assets when opportunities arise; and

— reduce the proportion of our total investments held as equities.

During the year the group realised £1,174,000 of net cash from equities and reinvested this, together with existing cash and the proceeds of disposals of property, into two commercial property acquisitions. As a result of this activity the proportion of our assets held as equities reduced to 3.6% (2015 5.2%).

Property disposals

Our regular review of the portfolio led to the sale of our commercial properties in Kingston upon Thames and Warwick for a combined total of £2,655,000. These properties were sold because:

— Kingston: the tenant died providing the opportunity to sell the freehold with vacant possession which produced a higher value than the investment value.

— Warwick: the tenant company had weakened financially, and the fixed rental uplifts meant that the property was becoming increasingly over-rented and with only six years remaining on the lease it was likely there would be a significant fall in value.

In addition, our interests in two residential units were disposed of and we received the proceeds of a lease extension on one of our residential flats giving total sales proceeds of £3,011,000.

In December 2016 we exchanged contracts for the sale of our multi-let unit in Staines. We had obtained planning consent to build nine residential units above the ground floor shops and this significantly enhanced the value of the property with the sale price being 77% in excess of the December 2015 valuation. The sale of this property will be accounted for, upon completion, in 2017.

Property acquisitions

In August the group purchased two property investments.

In Coventry we acquired three food outlet units adjoining a large business park let to The Restaurant Group, Greggs and Subway on average unexpired lease terms of 19.9 years. The purchase price was £2,400,000 (net of costs).

We also acquired two retail warehouse units in Grantham let to Marks & Spencer plc and B&Q plc, with lease expiries in 2034 and 2025 respectively, for £6,925,000 (net of costs). The Marks & Spencer unit trades as a food hall.

These two acquisitions continued our strategy of buying assets with long-term, secure, income. Yields in excess of 6% were achieved in both cases.

Sector balance

Over the past three years we have rebalanced the portfolio in order to spread the income risk over more sectors of the property market. We have disposed of the majority of our residential investments, in line with our stated policy, as we considered that the value of our residential holdings were not significant enough. These assets were sold at times when the market was hungry for these types of investment and good sales prices were achieved.

The retail element of the portfolio has been altered. We have reduced the value/number of our high street retail holdings and now have 39% by value of our holdings in retail warehousing – up from nil four years ago.

We consider that we now have a good balance in our portfolio over the retail, office and warehouse/industrial sector, that is well placed to deal with current market conditions. We will continue to monitor economic and political developments and react accordingly to any changes in market conditions. We will also look at other sectors of the property market where we do not currently have any investment but which may afford us opportunities to increase our returns and spread our risk.

Case Study – Recent acquisition

London Road Retail Park, Grantham Occupied by: B&Q and Marks & Spencer

Reason for acquisition

In August we acquired the freehold interest in the London Road Retail Park, Grantham which comprises two retail warehouses let to B&Q and Marks & Spencer on leases which expire in 2025 and 2034 respectively. The property was acquired because of the long leases secured against strong covenants, providing a yield in excess of 6%. These are modern units which trade well in an established location adjoining another retail park. The Marks & Spencer unit is a food hall.

How this links to our strategy

This acquisition is part of our strategy of buying larger properties at attractive yields and with good long-term income. Both tenants are substantial companies and this is B&Q's second lease on these premises, which is a good indication of its established trading location.

— Purchased: August 2016

— Current tenants: B&Q, Marks & Spencer

— Rental income: £453,000 pa

— Cost: £7,347,000 (£6,925,000 net of costs)

— Net initial yield: 6.02%

— December 2016 valuation: £7,100,000

We were delighted with this acquisition which was completed within four weeks during the turbulent post Brexit period. Our ability to react swiftly and to arrange finance within a very tight time frame ensured the success of our bid. We expect this asset to provide a significant return to shareholders on the equity invested.

Operating review continued

The property portfolio is split, by valuation, as follows:

	2016 %	2015 %	2014 %	2013 %	2012 %
Retail	18	20	23	29	41
Warehouse	29	34	38	33	39
Retail warehouse	39	33	20	15	-
Office	10	12	14	17	13
Leisure	3	-	2	2	3
Residential	1	1	3	4	4
Total	100	100	100	100	100

Performance

In what can, justifiably, be called a turbulent year the group performed well. We experienced a 100% occupancy rate in the portfolio, an increase of approximately 14% in total value and an increase of 2.7% in like-for-like values.

The warehouse sector performed well generally as evidenced by an increase in excess of 8% on our Milton Keynes property, where there had been no asset management changes during the year. This was complemented by a 77% increase in value on our Staines property where planning consent had been granted for the erection of nine residential units above the existing ground floor shops.

Simon Gill
Chief executive

Case Study – Recent disposal

Heathcote Industrial Estate, Warwick Occupied by: Nationwide Crash Repair

Reason for disposal

This property was one of the smaller valued properties within the portfolio. The lease was subject to fixed rental uplifts every 5th year of the term and, as a consequence of these fixed uplifts, the property had become over-rented. The combination of the higher than market rent and the fact that there was only a short unexpired term on the lease, which expires in March 2023, meant that there was likely to be a significant downward movement in the valuation of the property in the future.

In addition, the guarantor to the tenant company had ceased trading and the financial statements of the occupying tenant had weakened.

How this links to our strategy

The sale of this property formed part of our strategy of constantly assessing the portfolio, identifying the weaker non-performing assets and selling them to reinvest the proceeds into better and larger investments. We constantly appraise the portfolio to identify properties which may become vulnerable to changes which could affect income stream or valuation.

- 2010 cost: £1,558,000
- June 2016 valuation: £1,485,000
- Tenant: Nationwide Crash Repair
- Rental income: £134,000 pa
- Sale price: £1,530,000
- Net yield: 8.2%

This disposal, in November 2016, enabled us to take advantage of a relatively strong purchaser demand and to realise a capital value in excess of the most recent valuation. The proceeds will be reinvested in the commercial property portfolio.

Financial review

‘It has been a successful year with an increase in total income, net assets and dividends payable.’

Roberta Miles
Finance Director

Overview

The group has continued to perform positively during the year ended 31 December 2016; gross rental income increased by 13.7% to £3,906,000 and net rental income by 19.4% to £3,708,000. This has arisen from rental growth and from net acquisitions in the year and from recognising a full year of income from our acquisition completed in May 2015. Whilst our administrative costs and finance costs also increased in the year, our underlying revenue profit (excluding realised and revaluation gains) has increased by 1.4% and has supported an increase in our property income distribution of 5.7%.

Income

Total income has increased by 12.0%.

Net assets have increased by 4.4% to £55,325,000 and we have a modest net gearing level of 21%. Our investment properties increased in value by £973,000 (2.7% on a like-for-like basis) and our equity investments also showed a gain in value of £467,000 during the year.

Since 2009 (our first full accounting year as a REIT) our dividends have risen by a total of 58% - a compound annual increase of 6.7%. In the same period our net assets per share have increased by 61% from £6.66 to £10.71 per share.

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Commercial property income	**3,886**	3,402	3,044	2,691	2,308
Residential property income	**20**	33	35	40	43
Gross income from property	**3,906**	3,435	3,079	2,731	2,351
Income from equity investments	**144**	182	437	234	251
Total income	**4,050**	3,617	3,516	2,965	2,602

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

	2016 %	2015 %	2014 %	2013 %	2012 %
Increase in gross income from property	**14**	12	13	16	10

This growth comprises many factors, the key ones are:

— a full year’s income from our Wisbech property that was purchased in May 2015;

— increased rents arising from two rent reviews and one full year of a 2015 fixed increase of rent;

— the effect of the income from our Grantham and Coventry acquisitions;

— an increased rental from our retail properties in Norwich, Leamington Spa and one of our Cirencester units, where the 2015 rental income was reduced due to lease expiries and one tenant administration; offset by

— a reduced rental income from our Kingston and Warwick properties which were sold in 2016; and

— a reduced rental income arising from our retail investment in Staines, which has been sold in February 2017, due to the write-back of the associated IFRS rent free debtor and to nil rent being received on one unit.

The income from equity investments has reduced in line with the divestment from our equity portfolio.

Financial review continued

Administration and other expenses

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Directors' remuneration	**451**	378	306	188	156
Auditor's remuneration including other services	**58**	37	34	22	20
Other expenses	**142**	118	92	135	135
Administration expenses	**651**	533	432	345	311
Net finance expense/(income)	**495**	358	170	54	(8)
Total expenses	**1,146**	891	602	399	303

In 2014 the group introduced a performance related element to directors' pay and this, together with rises in base salaries, reflecting the increased demands of the business, has increased directors' remuneration. These changes are described in more detail in the directors' remuneration report. Finance costs increased as the group took £7,500,000 of medium-term borrowing in May 2015 to help fund the Wisbech acquisition and £3,400,000 in August 2016 to help fund the Grantham acquisition. Other expenses, in particular taxation and legal and compliance fees, have increased due to the general level of activity, the increased size of the business and some one-off professional fees relating to the 2016 AGM.

Summary of profit before tax and income tax credit

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Profit before tax	**4,301**	7,165	6,953	4,842	3,579
Income tax credit	**42**	70	104	14	15
Profit for the year	**4,343**	7,235	7,057	4,856	3,594

In 2016 the profit for the year was influenced by an increase in net rental income of £602,000 and offset by a decrease in net realised gains on investment property of £284,000, a decrease in dividend revenue of £38,000, and increases in administration expenses of £118,000 and finance expenses of £137,000, whereas the net valuation gain on investment property of £973,000 was £3,792,000 lower than 2015 and the gain in equity investments £903,000 higher than the 2015 loss of £415,000.

Assets

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Commercial property	**65,413**	57,505	45,215	37,935	30,345
Residential property	**584**	459	1,308	1,480	1,264
Equities	**2,469**	3,155	4,532	5,227	5,713
Total investments	**68,466**	61,119	51,055	44,642	37,322

Our investments increased due to a combination of acquisitions and revaluation gains, net of disposals.

Summary of property investment activities

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Additions at cost	**9,896**	8,590	6,084	8,488	4,827
Net proceeds from disposals	**(2,972)**	(2,332)	(3,548)	(2,340)	(4,972)
Net investment in property portfolio	**6,924**	6,258	2,536	6,148	(145)

Realised and unrealised property gains

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

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Realised gains on investment property	**134**	418	941	415	1,552
Realised losses on investment property	**–**	–	(4)	–	–
	134	418	937	415	1,552
Revaluation gains on investment property	**2,509**	4,840	3,785	1,833	1,769
Revaluation losses on investment property	**(1,536)**	(75)	(150)	(590)	(2,355)
	973	4,765	3,635	1,243	(586)

The realised gains arose primarily from the disposal of two occupied residential units and one lease extension; in addition, there were small movements arising from our two commercial property disposals. Overall our property portfolio increased in value during the year by £973,000, which represents 2.7% on a like-for-like basis. The two most significant revaluation gains related to our retail property in Staines where contracts were exchanged for its disposal prior to the year end, and to our residential block of flats where a leasehold enfranchisement process is taking place. The most significant revaluation loss related to our Wisbech property where yields softened during the year.

Equity investments

In 2016, in line with our strategy, we released £1,174,000 of net cash from our equity portfolio. Our equity investments marginally outperformed the market in 2016 due to a combination of the quality of our holdings and the timing of our sales. Additional information regarding our equity investments is in note 9 to the consolidated financial statements.

Financing and cashflow

Net cash generated from operations was £386,000 higher at £2,909,000. It is the directors' intention to reinvest surplus cash into the commercial property portfolio when suitable opportunities arise.

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Opening cash	**4,852**	2,039	3,128	3,274	1,926
Net cash from operating activities	**2,909**	2,523	2,910	2,414	2,397
Investment acquisitions - property	**(9,896)**	(8,590)	(6,084)	(8,488)	(4,827)
Investment acquisitions - equities	**(3)**	(7)	(649)	(125)	(540)
Investment disposals - property	**2,972**	2,332	3,548	2,340	4,972
Investment disposals - equities	**1,176**	969	969	1,382	922
Dividend paid	**(2,041)**	(1,914)	(1,783)	(1,669)	(1,576)
Medium-term loan	**3,400**	7,500	–	4,000	–
Closing cash	**3,369**	4,852	2,039	3,128	3,274

Financial review continued

Analysis of borrowing

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Handelsbanken term loan 2026	**3,400**	–	–	–	–
Handelsbanken term loan 2022	**7,500**	7,500	–	–	–
Handelsbanken term loans 2020	**4,000**	4,000	4,000	4,000	–
Total debt	**14,900**	11,500	4,000	4,000	–
Cash	**(3,369)**	(4,852)	(2,039)	(3,128)	(3,274)
Net debt	**11,531**	6,648	1,961	872	(3,274)
Net assets	**55,325**	53,023	47,702	42,428	39,241
Gearing (net of cash)	**21%**	13%	4%	2%	–

Our average cost of total debt was 3.8% (2015 4.1%).

Outlook

The outcome of the UK's EU referendum vote has created uncertainty in the property market; however, there has been limited measurable impact on the group so far. The combination of uncertainty with the actual Brexit process and the volatility in exchange rates is likely to continue throughout 2017. However our quality of assets and spread of sector risk combined with our concentration of assets in the south of England and Wales means that we are in a strong position.

We remain optimistic about the prospects for the group and its ability to meet its strategic objectives in the medium and long term.

Approved by the board and signed on its behalf.

Roberta Miles

Roberta Miles
Finance Director
23 March 2017

Chairman's introduction to corporate governance

'All members of the board support the principles of good corporate governance.'

John Hewitt
Chairman

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. 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.

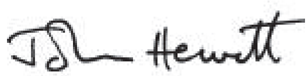
Our strategy is set out on pages 8 and 9. All the board support this strategy and ensure that any matters that it approves are in line with this strategy.

The board recognises the importance of staying up to date with the ever evolving corporate governance framework that we operate within, and in adopting the spirit of all the recommendations. The board complies with the provisions of the UK Corporate Governance Code other than the fact that it does not have two independent non-executive directors in addition to the independent non-executive chairman. Whilst the board is very mindful of the provisions of 'the Code' it has decided that the cost of compliance with this provision would outweigh any benefits given the small size and lack of complexity of the group.

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

We recognise the importance of shareholder communication and its place within a sound governance framework. During the year we have had regular contact with our key shareholders. 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 2017.

This governance report on pages 21 to 33 highlights our compliance with the Code during the year and explains governance structure. All members of the board support the principles of good corporate governance and believe that we comply with the provisions of the UK Corporate Governance Code as is appropriate.



John Hewitt
Chairman

Board of directors

Simon Costa

Non-executive director and senior independent director

Appointment to the board

Simon joined the board as senior independent director in 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 the University of Oxford. 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. He advised US and UK public and private corporations on finance, operations, and strategy, as well as owning 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 experience gives 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 July 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 life cycle. 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 and is a director of Waingate Management Services Limited and Solar Estates Limited.

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

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. The chairman, on appointment, met the independence criteria of the code.

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.

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 in 2015.

Board committees

Executive committee

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

The key roles and responsibilities of the audit, remuneration and nomination committees are set out in the reports on pages 25 to 30.

The terms of reference of these committees are available on the group's website.

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. The company complies with the provisions of the code in full other than provision B.1.2 which requires a 'small company' to have at least two independent non-executive directors in addition to the chairman. The board believes that due to the size and relative simplicity of the group's operations the cost of recruitment and employment of another independent non-executive director would outweigh any benefits.

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.

During 2016 the number of board and non-executive committee meetings and individual participation was as follows:

	Board	Audit	Remuneration	Nomination
Number of meetings	**6**	**4**	**2**	**1**
John Hewitt	6	4	2	1
Simon Costa	6	4	2	1
Simon Gill	6	N/A	N/A	N/A
David Kingerlee	6	N/A	N/A	N/A
Roberta Miles	6	4 (part)	N/A	N/A

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

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 2016 the board conducted a self-performance evaluation by way of a questionnaire designed to assess the strength of the board and its committees and also to identify areas for improvement. This process was led by the chairman and the results were discussed by the board. The board considered itself to be generally effective in all the key areas identified in the questionnaire. These areas included; contribution to results and achievement of strategic objectives, management controls and risk, operating styles and methods and shareholder relationships.

Relations with shareholders

The board values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The chairman and other directors are available to meet shareholders if required. The AGM provides a forum, both formal and informal, for shareholders to meet and discuss relevant matters with all the directors. Documents are sent to shareholders at least 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 32.

The directors have put in place measures to ensure that the election or re-election by the shareholders of any independent non-executive director is 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.

Report of the audit committee

'A key activity of the committee has been to appoint a new external auditor for the 2017 financial year.'

Simon Costa
Chairman of the audit committee

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 for continuing to develop and maintain a sound system of risk management and internal control.

Composition of the committee

The committee consists of myself as chairman and John Hewitt. The committee meets regularly during the year, in line with the financial reporting timetable and, in 2016, met three times for routine business. In addition, it met specifically as part of the tender process for a new auditor. 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 2016 continue to be the valuation of our property and investment portfolios and the changing financial reporting requirements relating, in particular, to United Kingdom accounting standards. 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 as regards the financial statements are described on page 33, and that of the auditor on page 37.

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 the auditor Grant Thornton UK LLP (Grant Thornton) was engaged in non-audit services, giving rise to fees of £18,000. The audit fee is £29,000.

In order to ensure that the external audit is as effective as possible the auditors must identify the appropriate risks as part of their planning process. For this financial year Grant Thornton submitted a detailed audit plan at the planning audit committee meeting which outlined key risks (including the valuation of investment property and equities, risk of revenue misstatement due to the inclusion of fraudulent transactions, areas of accounting capable of manipulation and compliance with REIT criteria). The committee is 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.

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

For 2017, due to the Revised Ethical Standard issued by the Financial Reporting Council in June 2016, and effective for periods commencing on or after 17 June 2016, Grant Thornton were unable to continue with the dual roles of auditor and tax adviser. This meant that either our tax adviser was changed with effect from 1 January 2017 and no tax compliance work could be undertaken during 2017 for 2016 (such as the preparation of 2016 tax returns) by Grant Thornton, or the auditor was changed with effect from the accounting period commencing 1 January 2017. The committee decided to change auditor and a tender process took place. Three firms were shortlisted and invited to visit the company and to present to the committee. The proposals were judged on criteria including; independence, reputation, culture, experience of main market and property companies, audit approach and pricing. The audit committee recommended to the board, and the board approved, the appointment of Mazars LLP and a resolution will be put to shareholders at the 2017 AGM to approve their appointment.

Report of the audit committee continued

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, include: clear limits of authority; annual revenue, cash flow and capital forecasts, reviewed regularly during the year, monthly monitoring of cashflow 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, reviews reports from the external auditor arising from the audit and deals with significant control matters raised; regular board meetings to monitor areas of concern; annual review of risks and internal controls; annual review of compliance with the Code.

More detail regarding our management of risk within our strategic framework is set out on pages 10 to 12.

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

Simon Costa
Chairman of the audit committee

Report of the nomination committee

'The board should comprise individuals with requisite skills, knowledge and experience.'

John Hewitt
Chairman

Composition of the committee

The committee consists of the non-executive directors John Hewitt and Simon Costa. It is chaired by me unless the committee is dealing with the successor to the chairmanship. In such a case the committee would be chaired by another non-executive director and may involve an external consultant. The key objective of the committee is to ensure that the board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities. It is responsible for recommending board and board committee membership changes to the board, for board succession planning and for identifying suitable candidates for board vacancies to be nominated for board approval.

Activities of the committee

During the year the committee considered succession planning in the medium term and the diversity of the board, in line with best practice developing in the marketplace.

John Hewitt
Chairman of the nomination committee

Directors' remuneration report

'The board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). An ordinary resolution for the approval of this report and our remuneration policy will be put to the members at the forthcoming AGM.'

Simon Costa
Chairman of the remuneration committee

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 34 to 37.

Annual statement

It is my pleasure to introduce this year's remuneration report.

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 0.51% of the company and has served as a director for 17 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 pay scheme for executive directors. It was agreed that this would continue to take the form of a discretionary bonus that was calculated by 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.
- review the level of directors' fees for 2017. 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 2017. The executives' salaries were reviewed and additional increases for all directors were proposed to the board for approval.

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 continue to be aligned with our remuneration philosophy with 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 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.

Directors' remuneration report continued

Benefits. No benefits are currently payable.

Pensions. The auto enrolment date for the company was 1 April 2016. An appropriate scheme was in place by 1 January 2016. The minimum level of company contribution of 1% was offered to the eligible directors. This employer contribution level will rise at least 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 discretionary 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 will be put to shareholders again at the 2017 AGM. 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 executive directors were entitled to a base salary, a pension and a discretionary bonus. They were not eligible to receive any other benefits. The non-executive directors were entitled to a base salary and a pension. The directors are not entitled to participate in any long-term incentive plan or share option scheme. All base salaries are paid monthly and are not performance-related. 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. The board decided that, with effect from the 2016 AGM, all directors will offer themselves for re-election annually 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. 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	2 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.

Annual remuneration report

Relative importance of spend on pay

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

	2016 £'000	2015 £'000	2014 £'000
Directors' remuneration	**404**	338	275
Distributions paid to shareholders	**2,041**	1,914	1,783
Directors' remuneration as a percentage of distributions paid to shareholders	**19.8%**	17.7%	15.4%

Remuneration of the directors undertaking the role of chief executive officer ('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.

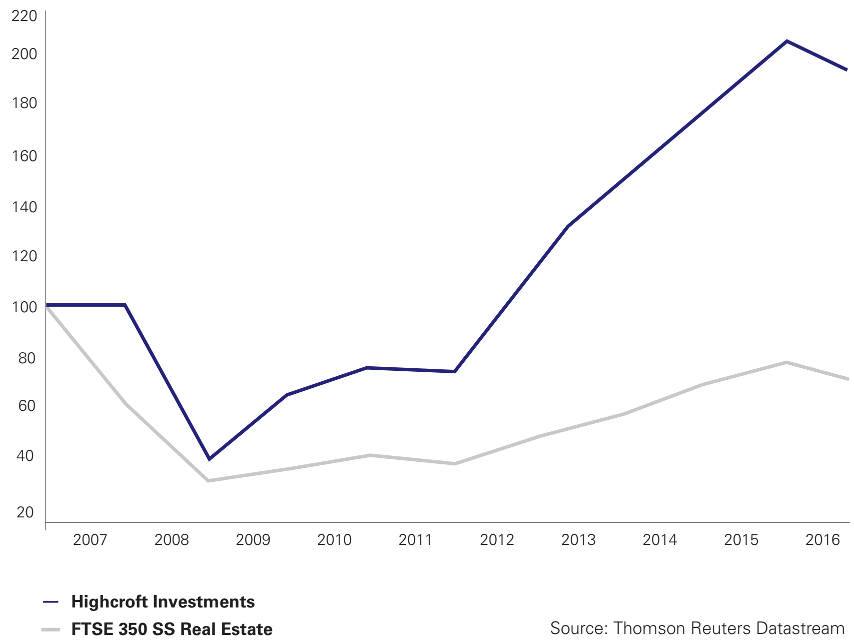
	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Simon Gill	**182**	152	111	21	–
Jonathan Kingerlee	**–**	–	–	20	35
	182	152	111	41	35
Percentage change in total remuneration of CEO	**19%**	37%	171%	17%	–

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



Source: Thomson Reuters Datastream

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 2017. Base salaries have been reviewed in accordance with this policy. As laid out in the policy a pension scheme was introduced with effect from 1 January 2016. The company will, during 2017, continue with the policy of not paying benefits.

Directors' remuneration (audited)

	2016				2015		
	Base salary £	Pension £	Discretionary bonus £	Total £	Base salary £	Discretionary bonus £	Total £
John Hewitt	21,250	–	–	21,250	20,500	–	20,500
Simon Costa	18,000	–	–	18,000	10,335	–	10,335
Simon Gill	95,000	–	86,500	181,500	70,000	82,080	152,080
David Kingerlee	32,500	–	30,000	62,500	27,500	24,480	51,980
Roberta Miles	72,500	725	47,500	120,725	60,000	37,440	97,440
Richard Stansfield	–	–	–	–	6,165	–	6,165
	239,250	725	164,000	403,975	194,500	144,000	338,500

There were no benefits in kind. 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 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 £164,000 (2015 £144,000) represents 8.0% (2015 7.5%) of distributions paid to shareholders in 2016.

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 2016 and at 31 December 2016 were as follows:

	31 December 2016		1 January 2016	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
John Hewitt	26,485	–	21,985	–
Simon Costa	–	–	–	–
Simon Gill	–	–	–	–
David Kingerlee	89,470	99,225	88,470	99,225
Roberta Miles	3,200	–	2,700	–

Between 1 January 2017 and 23 March 2017 David Kingerlee's non-beneficial holding reduced to 38,890 shares. There have been no other changes in the holdings between 1 January 2017 and 23 March 2017.

Statement of shareholder voting

At the AGM in 2016 the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	2,817,076	100%
Votes cast against	–	–
Total votes cast	2,817,076	100%
Votes withheld	–	–

Approved by the board of directors and signed by

Simon Costa
Chairman of the remuneration committee
23 March 2017

Report of the directors

The corporate governance report on pages 21 to 33 forms part of the report of the directors

The directors present their report together with the audited financial statements for the year ended 31 December 2016.

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

Directors

The directors listed on page 22 constituted the board during the year. The interests of the directors in the shares of the company are included in the remuneration report on page 30.

In accordance with the Code, all directors will retire and offer themselves for re-election at the forthcoming AGM on 12 May 2017.

The board confirms that following performance evaluations, the performance of each director seeking re-election continues to be effective and that they demonstrate commitment to their role. The board has considered John Hewitt's independence. They have taken into account his length of service of 17 years and his shareholding of 26,485 shares, 0.5% of the issued share capital, and his dividend received in the year of £9,000. It has also considered the fact that: he is independent of management, free from any business or other relationship that could interfere with the exercise of his independent judgement, independent in character and judgement and does not represent a significant shareholder nor hold any cross directorships with other directors. The board has concluded that John Hewitt is independent. The board believes that it is in the best interest of shareholders that all 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 2016 was £1,291,810 (2015 £1,291,810) divided into 5,167,240 (2015 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 23 March 2017 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
D G & M B Conn and associates		21.29%	1,100,322
Controlling shareholder – Kingerlee Concert Party comprising:		41.94%	2,167,189
– 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		14.69%	759,746

Report of the directors continued

The corporate governance report on pages 21 to 33 forms part of the report of the directors

Controlling shareholder

A controlling shareholder is defined by the Financial Conduct Authority 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 Limited and its subsidiaries referred to in the above table together with their connected parties and associates form the Kingerlee Concert Party which, as at 23 March 2017, held 2,167,189 ordinary shares, representing 41.94% 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 2016 until 31 December 2016 ('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, the independent shareholders.

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 will be resigning as auditor as explained on page 25. Mazars LLP have expressed their willingness to be appointed in office as auditor and a resolution to appoint them will be proposed at the forthcoming AGM, in accordance with Section 489 of the Companies Act 2006.

Approved by the board,

Roberta Miles

Roberta Miles
Company secretary
23 March 2017

Statement of directors' responsibilities

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

The directors are responsible for preparing the strategic report and 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 (IFRSs) as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs and UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 all steps that they ought to have taken as directors in order 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 laws and regulations. The directors consider the annual report and the financial statements, taken as a whole, provide 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. 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

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

John Hewitt
Chairman
23 March 2017

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 2016 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 Investments PLC's financial statements for the year ended 31 December 2016 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 statement of financial position, 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 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 was £725,000, which represents 1.0% of the group's total assets;

— We performed full scope audit procedures at 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.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risk 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 with a carrying value of £66.0m, which is classified as investment property for financial reporting purposes and carried at fair value in accordance with International Accounting Standard (IAS) 40 'Investment Property'. The measurement of the investment property values includes significant assumptions and judgements. We therefore identified the valuation of investment property as a significant risk requiring special audit consideration. The group's accounting policy on investment property, including its valuation, is shown in note 1 to the financial statements and related disclosures are included in note 8. The Audit Committee identified the valuation of the property and investment portfolios as a significant issue in its report on page 25, 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; — assessing whether the group's accounting policy for the valuation of investment property is in accordance with IFRS as adopted by the European Union and testing whether management have accounted for valuation in accordance with that policy; — including making enquiries of the valuers regarding the methods and assumptions they used and an assessment of whether their work was suitable for the purpose of our audit; — assessing the historical reasonableness of previous assumptions made by the valuers by comparing to subsequent disposals; — 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 £725,000, which is 1.0% of the group's total assets. This benchmark is considered the most appropriate because management consider the group's total assets to be a key performance measure.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2015 due to an increase in the benchmark percentage used from 0.5% to 1.0% of the group's total assets based on our professional judgement.

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 £36,000. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent auditor’s report continued

To the members of Highcroft Investments PLC

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.

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 approach was based on a thorough understanding of the group’s business and is risk based, and in particular included:

— obtaining 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; and

— undertaking 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.

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 £91,000 to £682,000.

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.

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the Strategic Report and Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the Strategic Report and the Directors’ Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors’ Report.

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.

Under the Listing Rules, we are required to review:

- the directors' statements in relation to going concern and longer-term viability, set out on page 10; and
- the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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 33, 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
23 March 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Gross rental revenue		3,906	–	**3,906**	3,435	–	3,435
Property operating expenses	8	(198)	–	**(198)**	(329)	–	(329)
Net rental income		3,708	–	**3,708**	3,106	–	3,106
Realised gains on investment property		134	–	**134**	418	–	418
Realised losses on investment property		–	–	**–**	–	–	–
Net gains on investment property		134	–	**134**	418	–	418
Valuation gains on investment property		–	2,509	**2,509**	–	4,840	4,840
Valuation losses on investment property		–	(1,536)	**(1,536)**	–	(75)	(75)
Net valuation gains on investment property	8	–	973	**973**	–	4,765	4,765
Dividend revenue		144	–	**144**	182	–	182
Gains on equity investments	9	–	546	**546**	–	87	87
Losses on equity investments	9	–	(58)	**(58)**	–	(502)	(502)
Net investment income/(expense)		144	488	**632**	182	(415)	(233)
Administration expenses	3	(651)	–	**(651)**	(533)	–	(533)
Net operating profit before net finance expense		3,335	1,461	**4,796**	3,173	4,350	7,523
Finance income		11	–	**11**	7	–	7
Finance expense		(506)	–	**(506)**	(365)	–	(365)
Net finance expense		(495)	–	**(495)**	(358)	–	(358)
Profit before tax		2,840	1,461	**4,301**	2,815	4,350	7,165
Income tax credit/(charge)	5	72	(30)	**42**	56	14	70
Profit for the year after taxation		2,912	1,431	**4,343**	2,871	4,364	7,235
Total profit and comprehensive income for the year attributable to the owners of the parent		2,912	1,431	**4,343**	2,871	4,364	7,235
Basic and diluted earnings per share	7	55.7p	28.3p	**84.0p**	55.6p	84.4p	140.0p

The total column represents the statement of comprehensive income as defined in IAS1.

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

Consolidated statement of financial position

at 31 December 2016

	Note	2016 £'000	2015 £'000	2014 £'000
Assets				
Non-current assets				
Investment property	8	**65,997**	57,964	46,523
Equity investments at fair value through profit or loss	9	**2,469**	3,155	4,532
Total non-current assets		**68,466**	61,119	51,055
Current assets				
Trade and other receivables	10	**631**	641	415
Cash and cash equivalents		**3,369**	4,852	2,039
Total current assets		**4,000**	5,493	2,454
Total assets		**72,466**	66,612	53,509
Liabilities				
Current liabilities				
Trade and other payables	11	**1,866**	1,664	1,312
Total current liabilities		**1,866**	1,664	1,312
Non-current liabilities				
Interest bearing loans	12	**14,900**	11,500	4,000
Deferred tax liabilities	13	**375**	425	495
Total non-current liabilities		**15,275**	11,925	4,495
Total liabilities		**17,141**	13,589	5,807
Net assets		**55,325**	53,023	47,702
Equity				
Issued share capital	14	**1,292**	1,292	1,292
Revaluation reserve – property		**14,276**	14,764	11,332
– other		**659**	667	1,335
Capital redemption reserve		**95**	95	95
Realised capital reserve		**27,020**	25,586	24,785
Retained earnings		**11,983**	10,619	8,863
Total equity attributable to the owners of the parent		**55,325**	53,023	47,702

These financial statements were approved by the board of directors on 23 March 2017.

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

2016	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 2016	1,292	14,764	667	95	25,586	10,619	53,023
Dividends	–	–	–	–	–	(2,041)	(2,041)
Reserve transfers:							
Non-distributable items recognised in statement of comprehensive income:							
Revaluation gains	–	973	467	–	–	(1,440)	–
Tax on revaluation gains	–	–	(26)	–	–	26	–
Realised gains	–	–	–	–	149	(149)	–
Surplus attributable to assets sold in the year	–	(836)	(449)	–	1,285	–	–
Excess of cost over revalued amount taken to retained earnings	–	(625)	–	–	–	625	–
Transactions with owners	–	(488)	(8)	–	1,434	(2,979)	(2,041)
Total comprehensive income for the year	–	–	–	–	–	4,343	4,343
At 31 December 2016	**1,292**	**14,276**	**659**	**95**	**27,020**	**11,983**	**55,325**

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 statement of comprehensive income:							
Revaluation gains/(losses)	–	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

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

Consolidated statement of cashflows

for the year ended 31 December 2016

		2016 £'000	2015 £'000
Operating activities			
Profit before tax on ordinary activities		4,301	7,165
Adjustments for:			
Net valuation gains on investment property		(973)	(4,765)
Net gain on disposal of investment property		(134)	(418)
Net (gain)/loss on investments		(488)	415
Finance income		(11)	(7)
Finance expense		506	365
Operating cashflow before changes in working capital and provisions		3,201	2,755
Decrease/(increase) in trade and other receivables		10	(226)
Increase in trade and other payables		193	352
Cash generated from operations		3,404	2,881
Finance income		11	7
Finance expense		(506)	(365)
Income taxes paid		–	–
Net cashflows from operating activities		2,909	2,523
Investing activities			
Purchase of non-current assets	– investment property	(9,896)	(8,590)
	– equity investments	(3)	(7)
Sale of non-current assets	– investment property	2,972	2,332
	– equity investments	1,176	969
Net cashflows from investing activities		(5,751)	(5,296)
Financing activities			
Dividends paid		(2,041)	(1,914)
New bank borrowings		3,400	7,500
Net cashflows from financing activities		1,359	5,586
Net (decrease)/increase in cash and cash equivalents		(1,483)	2,813
Cash and cash equivalents at 1 January 2016		4,852	2,039
Cash and cash equivalents at 31 December 2016		3,369	4,852

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

Notes to the consolidated financial statements

for the year ended 31 December 2016

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 2016 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.

Analysis of statement of comprehensive income

The profit or loss section of the statement of comprehensive income is analysed into two columns being revenue and capital. The capital column comprises valuation gains and losses on property and all gains and losses on financial assets and the related tax impact. The revenue column includes all other items.

Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, assumptions and estimates that affect the application of accounting policies and amounts reported in the consolidated statement of comprehensive income and consolidated statement of financial position. Such decisions are made at the time the financial statements are prepared and adopted based on historical experience and other factors that are believed to be reasonable at the time. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent. The measurement of fair value and carrying investments at fair value through profit and loss constitutes the principal areas of estimate and judgement exercised by the directors in the preparation of these financial statements. The valuations of investment properties and equity investments at fair value are carried out by external advisers who the directors consider to be suitably qualified to carry out such valuations. The primary source of evidence for property valuations is recent, comparable market transactions on arm's length terms. However, the valuation of the group's property portfolio is inherently subjective, which may not prove to be accurate, particularly where there are few comparable transactions. Key assumptions, which are also the major sources of estimation uncertainty used in the valuation, include the value of future rental income, the outcome of future rent reviews, the rate of voids and the length of such voids. 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.

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 2016 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:

— IFRS 9 Financial Instruments (effective 1 January 2018);

— IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018); and

— IFRS 16 Leases (effective 1 January 2019)

Management do not expect to implement the above standards until they can comprehensively assess the impact of all the changes.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiaries: Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited which are all made up to 31 December 2016, 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 prior year was accounted for as an asset purchase.

1 Significant accounting policies continued

Rental revenue as a lessor

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

Dividend revenue

Dividend revenue relating to exchange-traded equity investments is recognised in the statement of comprehensive income 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 statement of comprehensive income. 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.

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.

1 Significant accounting policies continued

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 99.6% 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 consider the payment history of the tenant and take 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 ('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 date of the statement of financial position.

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.

Revaluation reserves

Revaluation reserves include annual revaluation gains and losses less applicable deferred taxation and and are non-distributable.

Capital redemption reserve

The capital redemption reserve is a statutory non-distributable reserve into which amounts are transferred following the redemption or purchase of issued share capital.

Realised capital reserve

The realised capital reserve includes realised revaluation gains and losses less attributable income tax and is non-distributable.

Segment reporting

The group has three main operating segments; commercial property, residential property and financial assets. In identifying these operating segments, management follow the group's distribution of assets in accordance with its investment strategy. As there is now only one residential asset, the commercial and residential property segments will be combined with effect from 1 January 2017. 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. In additon, management review the performance of the revenue and capital segment of the business.

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 comprises the following main operating segments:

— commercial property comprising retail outlets, offices, warehouses and retail warehouses in England and Wales;

— residential property comprising a single-let house (disposed of during the year) and flats in England; and

— financial assets comprising exchange-traded equity investments.

	2016 £'000	2015 £'000
Commercial property		
Gross income	3,886	3,402
Profit for the year	3,221	7,297
Assets	67,858	60,192
Liabilities	16,378	12,821
Residential property		
Gross income	20	33
Profit for the year	473	131
Assets	584	460
Liabilities	–	–
Financial assets		
Gross income	144	182
Profit for the year	649	(193)
Assets	4,024	5,960
Liabilities	763	768
Total		
Gross rental and dividend income	4,050	3,617
Profit for the year	4,343	7,235
Assets	72,466	66,612
Liabilities	17,141	13,589

In 2016 the largest two tenants represented 12% and 10% of gross commercial property income for the year (2015 both 11%).

3 Administrative expenses

Included in administrative expenses are:

	2016 £'000	2015 £'000
Directors (note 4)	451	377
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	29	30
Fees payable to the company's auditor for other services:		
– taxation compliance services	17	16
– tax advisory services	3	–
– audit related assurance services	1	1

In addition, £nil (2015 £10,000) was paid to the auditor for taxation advice on the acquisition of the new subsidiaries. These costs were capitalised.

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

4 Directors and employees

	2016 £'000	2015 £'000
Remuneration in respect of directors was as follows:		
Remuneration	403	338
Pension costs	1	–
Social security costs	47	39
	451	377

The average number of employees was 6 (2015 6) all of whom, other than a part-time bookkeeper (remuneration £2,000 (2015 £2,000)), were directors of the group. 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

	2016 £'000	2015 £'000
Current tax:		
On revenue profits	12	(13)
On capital profits	(80)	(43)
	(68)	(56)
Deferred tax (note 13)	26	(14)
Income tax credit	(42)	(70)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 20%).

The differences are explained as follows:

	2016 £'000	2015 £'000
Profit before tax	4,301	7,165
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015 20%)	860	1,433
Effect of:		
Tax exempt revenues	(123)	33
Profit not taxable as a result of REIT status	(963)	(1,635)
Chargeable gains more than accounting profit	59	56
Use of management expenses	125	57
Effect of change in tax rate on deferred tax liability	–	(14)
Income tax credit	(42)	(70)

6 Dividends

The following dividends have been paid by the company:

	2016 £'000	2015 £'000
2015 Final: 24.50p per ordinary share (2014 22.75p)	1,266	1,175
2016 Interim: 15.0p per ordinary share (2015 14.3p)	775	739
	2,041	1,914

On 23 March 2017 the directors recommended a property income distribution of £1,343,000, 26.00p per share (2015 £1,266,000, 24.50p per share) payable on 2 June 2017 to shareholders registered at 5 May 2017.

7 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £4,343,000 (2015 £7,235,000) and on 5,167,240 shares (2015 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2016 and throughout the period since 1 January 2015. 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 £2,877,000 (2015 £2,871,000) has been calculated.

	2016 £'000	2015 £'000
Earnings:		
Basic profit for the year	4,343	7,235
Adjustments for:		
Net valuation gains on investment property	(974)	(4,765)
(Gains)/losses on investments	(488)	415
Income tax on losses	(4)	(14)
Adjusted earnings	2,877	2,871
Per share amount:		
Earnings per share (unadjusted)	84.0p	140.0p
Adjustments for:		
Net valuation gains on investment property	(18.9p)	(92.2p)
Losses on investments	(9.4p)	8.0p
Income tax on losses	–	(0.2p)
Adjusted earnings per share	55.7p	55.6p

8 Investment property

	2016 £'000	2015 £'000	2014 £'000
Valuation at 1 January	57,964	46,523	39,415
Additions	9,896	8,590	6,084
Disposals	(2,836)	(1,914)	(2,611)
Revaluation gains	973	4,765	3,635
Valuation at 31 December	65,997	57,964	46,523

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 2016, 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.

In addition, seven investment properties with a carrying amount of £30,830,000 (2015 six properties with a valuation of £24,020,000) are charged to Svenska Handelsbanken AB (publ) to secure the group's medium-term loans. At 31 December 2016 no investment properties were charged to Lloyds Bank plc to provide security for any future borrowings (2015 one property with a valuation of £1,275,000).

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

	2016 £'000	2015 £'000	2014 £'000
Less than one year	4,082	3,637	2,810
Between one and five years	12,956	12,552	10,318
More than five years	17,707	16,374	13,956
	34,745	32,563	27,084

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2016

9 Equity investments

	2016 £'000	2015 £'000	2014 £'000
Valuation at 1 January	**3,155**	4,532	5,227
Additions	**3**	7	649
Disposals	**(1,159)**	(1,038)	(1,205)
Surplus/(deficit) on revaluation in excess of cost	**467**	(277)	(65)
Revaluation decrease below cost	**(11)**	(71)	(76)
Revaluation increase still less than cost	**14**	2	2
Valuation at 31 December	**2,469**	3,155	4,532

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

	2016 £'000	2015 £'000	2014 £'000
Realised gains on equity investments	**52**	12	14
Revaluation gains on equity investments	**494**	75	217
	546	87	231
Realised losses on equity investments	**34**	80	250
Revaluation losses on equity investments	**24**	422	356
	58	502	606

10 Trade and other receivables

	2016 £'000	2015 £'000	2014 £'000
Trade receivables	**75**	46	18
Bad debt provision	**–**	–	–
Net trade receivables	**75**	46	18
Accrued rent receivable	**539**	553	365
Other receivables	**17**	42	32
	631	641	415

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 2016 amounts due from tenants which were more than 90 days overdue, which related to rents for 2016 or earlier, totalled £nil (2015 £nil). Provisions against these overdue amounts totalled £nil at the beginning of the year (2015 £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 £19,000 of the balance at 31 December 2015 (2015 £39,000) was written off to commercial rental income as contracts had been unconditionally exchanged to dispose of the relevant property.

11 Trade and other payables

	2016 £'000	2015 £'000	2014 £'000
Deferred income	**865**	838	683
Social security and other taxes	**392**	336	288
Other payables	**609**	490	341
	1,866	1,664	1,312

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

12 Interest bearing loans

	2016 £'000	2015 £'000	2014 £'000
Medium-term bank loans	**14,900**	11,500	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**	4,000	–
Over five years	**10,900**	7,500	4,000
	14,900	11,500	4,000

The average effective interest rate is 3.83% (2015 4.10%).

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% (2015 20%, 2014 20%).

	2016 £'000	2015 £'000	2014 £'000
At 1 January	425	495	604
Realised in the year	(76)	(56)	(116)
Provided/(released) in the year	26	(14)	7
At 31 December	375	425	495

14 Share capital

	2016 £'000	2015 £'000	2014 £'000
Allotted, called up and fully paid 5,167,240 (2015 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 £14,900,000 of medium-term debt at 31 December 2016 (2015 £11,500,000). 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 2016 or at 31 December 2015.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2016 or 31 December 2015.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2015 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:

	2016 £'000	2015 £'000
Transactions by the company:		
Property income distribution paid to related party	556	521
Rent paid to related party		
Transactions by Rodenhurst Estates Limited:	14	14
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 55 of this annual report.

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:

	2016 £'000	2015 £'000
John Hewitt	9	7
David Kingerlee	35	33
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); and

— 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 (2015 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.

	2016			2015		
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	1,204	1,208	4	1,831	1,835
Opening unrealised gain	5	1,941	1,946	5	2,692	2,697
Opening fair value at 1 January	9	3,145	3,154	9	4,523	4,532
Additions at cost	–	3	3	–	7	7
Disposal proceeds	–	(1,176)	(1,176)	–	(970)	(970)
Net profit/(loss) realised on disposal	–	18	18	–	(68)	(68)
Change in fair value in the year on assets held at 31 December	–	470	470	–	(346)	(346)
Closing fair value at 31 December	9	2,460	2,469	9	3,146	3,155
Closing cost	4	496	500	4	1,204	1,208
Closing unrealised gain	5	1,964	1,969	5	1,942	1,947
At 31 December	9	2,460	2,469	9	3,146	3,155

	2016		2015	
Categories of financial instruments	Carrying amount £'000	Income/ (expense) £'000	Carrying amount £'000	Income/ (expense) £'000
Financial assets designated at fair value through profit and loss:				
Equity investments	2,469	470	3,155	(346)
Loans and receivables:				
Trade and other receivables	631	–	641	–
Cash and cash equivalents	3,369	–	4,852	–
	4,000	–	5,493	–
Financial liabilities measured at amortised cost:				
Interest bearing loans	14,900	–	11,500	–
Trade and other payables	611	–	490	–
	15,511	–	11,990	–

18 Financial instruments and financial risk continued

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 2016 the group had £14,900,000 (2015 £11,500,000) of medium-term borrowing, of which £4,000,000 is repayable in 2020, £7,500,000 in 2022 and £3,400,000 in 2026 at fixed interest rates averaging 3.83% (2015 4.10%). The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values.

Market risk

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

Credit risk

The group's credit risk, 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 statement of financial position is calculated after any allowances for doubtful receivables, estimated by the directors. The allowance as at 31 December 2016 was £nil (2015 £nil). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2016 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 cash flows.

Interest rate risk

The group finances its operations through retained profits and medium-term borrowings at an interest rate that is fixed over the term of the loan. Interest rate swaps have not been used. The group places any cash balances on deposit at rates which are fixed in the short term but for sufficiently short periods that there is no need to hedge against the implied risk.

Currency exchange risk

The group is not directly exposed to currency risk. However, most of the group's equity investments are held in international companies and 46.2% (2015 39.1%) of the equity investment portfolio comprises overseas holdings. The inherent currency risk affecting those holdings is an indistinguishable factor in determining their market value and is taken into consideration as part of the overall assessment of investment risk.

Borrowing facilities

The group has no undrawn committed borrowing facilities.

19 Net assets per share

	2016	2015
Net assets	**£55,325,000**	£53,023,000
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**1071p**	1026p

20 Subsequent events

On 14 February 2017 the group completed the sale of its retail property in Staines realising gross proceeds of £2,292,000.

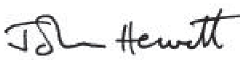
Company statement of financial position

at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Investments	5		52,982		51,710
Current assets					
Debtors	6	1,558		6	
Cash at bank		1,546		2,802	
		3,104		2,808	
Creditors – amounts falling due within one year	7	386		1,070	
Net current assets			2,718		1,738
Total assets less current liabilities			55,700		53,448
Provision for liabilities	8		375		425
Net assets			55,325		53,023
Capital and reserves					
Called up share capital	9		1,292		1,292
Reserves					
– Realised capital		7,395		7,008	
– Capital redemption		95		95	
– Revaluation		41,524		39,469	
– Retained earnings		5,019		5,159	
			54,033		51,731
Shareholders' funds			55,325		53,023

The profit after tax for the year was £4,329,000 (2015 £7,434,000).

These financial statements were approved by the board of directors on 23 March 2017.



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 2016

2016	Note	Share capital £'000	Realised capital reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016		1,292	7,008	95	39,469	5,159	53,023
Profit and total comprehensive income for the period	2	–	–	–	–	4,329	4,329
Dividends paid		–	–	–	–	(2,041)	(2,041)
Revaluation gain equities		–	–	–	470	(470)	–
Revaluation gain of subsidiaries		–	–	–	1,958	(1,958)	–
Realised gains		–	14	–	–	–	14
Tax on realised gains		–	(76)	–	76	–	–
Surplus attributable to assets sold in the year		–	449	–	(449)	–	–
Balance at 31 December 2016		**1,292**	**7,395**	**95**	**41,524**	**5,019**	**55,325**

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 subsidiary		–	–	–	5,777	(5,777)	–
Realised losses		–	(55)	–	–	–	(55)
Tax on realised losses		–	(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

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

Notes to the company financial statements

for the year ended 31 December 2016

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. The principal accounting policies of the company have remained unchanged from the previous year.

In preparing these financial statements the following disclosure exemptions 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 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.

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 (99.6% 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 £4,329,000 (2015 £7,434,000). All employees of the group are employed by the company. Information regarding employees' remuneration and average staff numbers appears on page 46 of this annual report.

3 Auditor's fees

	2016 £'000	2015 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**29**	30
Fees payable to the company's auditor for other services:		
Taxation compliance services	**6**	6
Other taxation services	**3**	–
Audit related assurance services	**1**	1
	39	37

4 Dividends

In 2016 the following dividends have been paid by the company:

	2016 £'000	2015 £'000
2015 Final: 24.5p per ordinary share (2014 22.75p)	**1,266**	1,175
2016 Interim: 15.0p per ordinary share (2015 14.3p)	**775**	739
	2,041	1,914

On 23 March 2017 the directors recommended a property income distribution of £1,343,000, 26.0p per share (2015 £1,266,000, 24.5p per share) payable on 2 June 2017 to shareholders registered at 5 May 2017.

5 Investments

	Total £'000	Shares in subsidiary undertaking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Valuation at 1 January 2016	51,710	48,555	3,146	9
Additions at cost	3	–	3	–
Disposals	(1,159)	–	(1,159)	–
Surplus/(deficit) on revaluation in excess of cost	2,425	1,958	467	–
Revaluation decrease below cost	(11)	–	(11)	–
Revaluation increase still less than cost	14	–	14	–
Valuation at 31 December 2016	**52,982**	**50,513**	**2,460**	**9**

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

	Total £'000	Shares in subsidiary undertaking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Cost at 31 December 2016	**10,771**	**10,271**	**496**	**4**
Cost at 31 December 2015	11,479	10,271	1,204	4

At 31 December 2016 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.

At 31 December 2016 the net assets and the profit for the financial year of these subsidiaries were:

	2016 Net assets £'000	2016 Profit/(loss) for the financial year £'000	2015 Net assets £'000	2015 Profit for the financial year* £'000
Rodenhurst Estates Limited	**50,513**	**3,957**	48,555	7,218
BL (Wisbech) Limited	**–**	**–**	–	–
Belgrave Land (Wisbech) Limited	**3,518**	**(281)**	3,780	1,296

* or period of ownership if shorter

Notes to the company financial statements

for the year ended 31 December 2016

6 Debtors

	2016 £'000	2015 £'000
Owed by subsidiary undertakings	1,548	–
Other debtors	10	6
	1,558	6

Amounts owed by subsidiary undertakings have no fixed repayment date and attract an interest rate of 1.5%.

7 Creditors — amounts falling due within one year

	2016 £'000	2015 £'000
Owed by subsidiary undertaking	–	730
Other taxes and social security	46	29
Other creditors	340	311
	386	1,070

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% (2015 20%, 2014 20%).

	2016 £'000	2015 £'000
At 1 January	425	495
Additions	26	–
Utilised	(76)	(56)
Reversals	–	(14)
At 31 December	375	425

9 Share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid 5,167,240 (2015 5,167,240) ordinary shares of 25p each	1,292	1,292

10 Capital commitments

There were no capital commitments at 31 December 2016 or at 31 December 2015.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2016 or at 31 December 2015.

12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2015 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:

	2016 £'000	2015 £'000
Property income distribution paid to related party	556	521
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.

Group five year summary (unaudited)

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Investment properties - at annual valuation	**65,997**	57,964	46,523	39,415	31,609
Equity investments - at market value	**2,469**	3,155	4,532	5,227	5,713
Total net assets	**55,325**	53,023	47,702	42,428	39,241
Net asset value per share in issue at end of each year	**1071p**	1026p	923p	821p	759p
Revenue (excluding gains/losses on disposals of assets)					
Gross income from property	**3,906**	3,435	3,079	2,731	2,351
Dividend income	**144**	182	437	233	251
Profit available for distribution	**2,912**	2,871	3,758	2,921	3,720
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**84.0p**	140.0p	136.5p	94.0p	69.6p
Adjusted earnings per ordinary share	**55.7p**	55.6p	72.7p	56.5p	72.0p
Dividends payable per ordinary share	**38.8p**	38.8p	36.0p	33.75p	31.8p
FTSE 350 Real Estate Index	**515**	588	543	469	394
Highcroft year-end share price	**897.5p**	987.5p	855p	720p	590p

Directors and advisers

Company number
00224271

Directors
John Hewitt, MA
(Non-executive chairman)
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

Independent auditor
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Statutory Auditor
Chartered Accountants
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