Highcroft
Investments PLC

Shareholder Focused
Market Aware
Opportunity Driven

Annual report and accounts

For the year ended 31 December 2018

Stock code: HCFT
www.highcroftplc.com

Welcome to the

Highcroft Investments PLC

Annual report and accounts 2018

View more online at:

www.highcroftplc.com

Who we are

Highcroft Investments PLC is an internally managed Real Estate Investment Trust (REIT)* which invests in commercial property in England and Wales. The company is listed on the premium (commercial company) segment of the main market of the London Stock Exchange.

We have a diversified portfolio of 20 properties generating rental income from 27 tenancies spread across the warehouse, retail warehouse, leisure, office and retail sectors.

Our purpose

Highcroft's purpose is to provide our tenants with excellent properties in optimal locations enabling them to succeed and our shareholders to benefit.

Our strategy

Highcroft aims to deliver sustainable long-term income and capital growth through accretive asset management initiatives and recycling of capital.

We deliver our strategy by leveraging our strengths:

- An experienced team
- High quality property assets
- Financial strength
- Moderate 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.

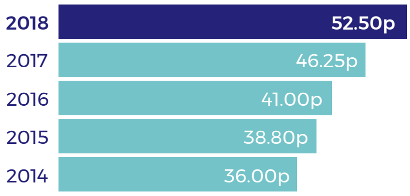
Opportunity driven
We are able to identify and react quickly to market opportunities in order to deliver returns above the industry average.

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

Highlights

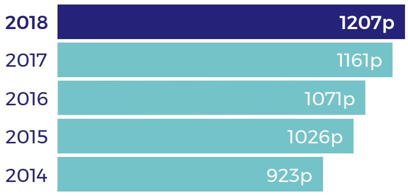
Dividends payable to shareholders

52.50p +13.5%



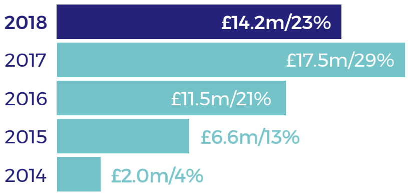
Net asset value per share

1207p +4.0%



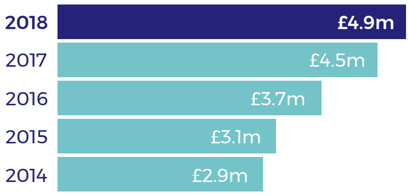
Net debt/gearing

£14.2m/23%



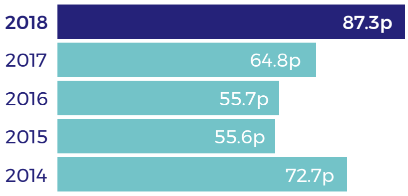
Net property income

£4.9m +7.8%



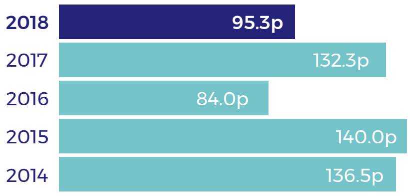
Adjusted earnings per share

87.3p +34.7%



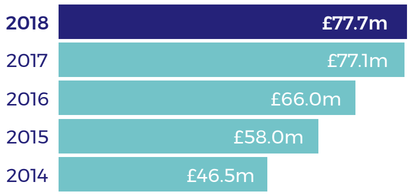
Total earnings per share

95.3p −28.0%



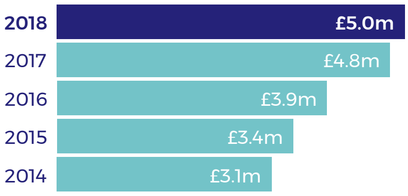
Value of property assets

£77.7m +0.8%



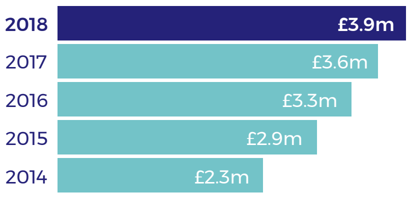
Gross property income

£5.0m +5.8%



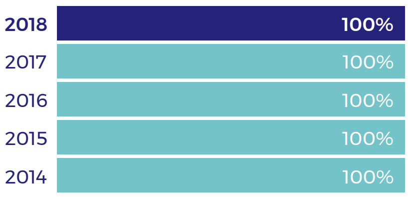
Average lot size

£3.9m +6.9%



Occupancy in our portfolio

100%



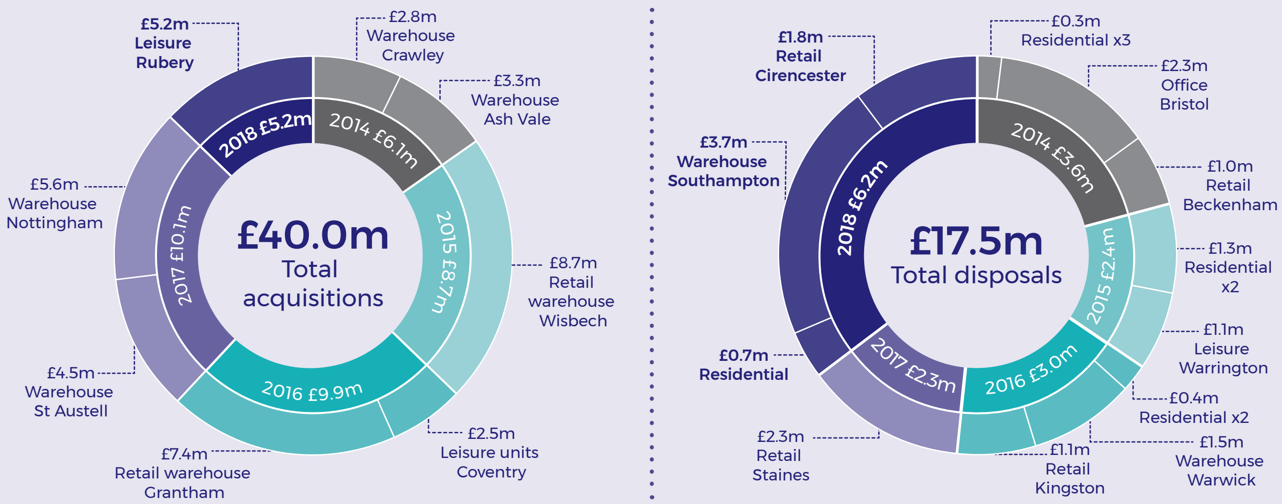
Contents

Operational highlights

"In 2018 we continued with our long-term strategy of rebalancing and growing the portfolio. We acquired one commercial leisure asset and disposed of three smaller assets, including our last residential holding. The market has remained challenging with very few opportunities to acquire well-let secure assets at an appropriate price."

Simon Gill
Chief executive

Over the last five years we have expanded our property portfolio in line with our strategy



Sector overview

Warehouse/industrial

The warehouse sector has continued to perform well during 2018 with growing market rental values and positive capital growth. We disposed of one of our eight assets in this sector in 2018, taking benefit from the strength of this sector and the particular demand for this specific asset. Our remaining assets have performed well and produce an average yield of 6.45% to valuation (8.4% to cost).

Retail warehouse

The retail warehouse sector performed poorly towards the end of 2018, yields softened resulting in a decline in values. Our exposure to this sector has increased from 15% in 2013 to 33% and we have benefited from historic good yields and from capital growth.

Retail

The retail sector has had another poor year with low income returns and negative capital growth. Our strategy of reducing our exposure to the retail sector from 29% in 2013 to 10% has minimised our exposure to this weakness. Our remaining assets are in prime locations with good covenants.

Leisure

The leisure sector showed a yield of 5.2% and a capital growth of 0.6% in the year. We have increased the weight of our portfolio in this sector from 3% to 9% in order to diversify our risk and enhance our average yield.

Office

The office sector performed relatively well during 2018. The capital value growth for the whole sector was 2.1% with individual variations to this being particularly caused by location and lease length. Our assets showed a combined fall of 2.0% in value as one had a remaining lease length of only three months.

Residential

The performance of our remaining residential asset, which was disposed of during the year, was a result of specific circumstances relating to the asset rather than the sector as a whole. The low yields and high ongoing costs related to this sector were the reasons that a decision was taken several years ago to withdraw from it.

Read more in the **Operating review** on pages 12 to 13

Chairman's statement

> An excellent year with net property income growth of 7.8%, total shareholder return of 5.2 % and a 13.5% increase in total dividend to 52.50 pence per share."

Introduction

I am very pleased to be delivering another strong set of results.

There is no doubt that 2018 has been a year of prolonged political and economic uncertainty, and even against the backdrop of protracted Brexit negotiations the company is reporting continued net property income growth of 7.8%, total shareholder return of 5.2% and a 13.5% increase in the total dividend to 52.50 pence per share.

Property portfolio

We purchased one freehold leisure asset during the year. This was financed by a combination of existing cashflow and recycled cash from two property sales and from equity sales. We sold one additional asset in December 2018, at a premium of 34.6% to the June valuation. This sale at such a significant premium to book value is a reflection of our ability to read the market and move swiftly to capitalise on opportunistic situations when they arise. At the year end our portfolio value comprised 72% industrial/retail warehouses, and the remainder split between well let retail, leisure and offices. We are also pleased to report that we sold our last residential asset during the year.

Gross property rental growth of 5.8% for the year remains robust and follows a particularly strong 2017. Contracted rent at the year-end was 1.2% up on the previous year end; however, this was masked by the sale of our Southampton asset close to the year end with an annual rent of £184,000. Adjusting back for this would have given an increase of 4.9%.

At the year-end we are holding a cash balance of £5.2m along with a liquid equity portfolio of £679,000 (sold post year-end for £724,000) and undrawn banking facilities of £10.6m. This gives the company in excess of £15m capacity to take advantage of opportunities as they arise in 2019. The company takes a prudent view of bank leverage and even if fully drawn, this facility would have accounted for less than 35% of the property portfolio value.

We have stringent criteria for new tenant acceptance and at the year-end all properties were fully let to a strong tenant base. Through a combination of stable income yields and active asset management I am pleased to report a 4.0% increase in net asset value and an 8.1% return on equity for the year.

People

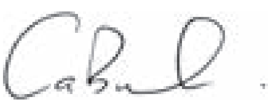
I would like to thank the team for their continued hard work throughout the year during challenging market conditions. We have a small but dedicated and experienced team at Highcroft and this sets us in good stead for the year ahead. The board supports the principles of good corporate governance so, in order to ensure that we comply insofar as is practicable with the principles of the 2018 UK Corporate Governance Code we are proposing to introduce a new incentive plan for the executive directors in order to further align their interests with those of the shareholders. More details of this can be found on page 36.

Dividend

The company's interim dividend was increased by 15.4% and, because of good revenue growth, efficient use of debt and containing our administration costs we have increased the final dividend to 33.75 pence per share giving a total dividend of 52.50 pence per share, an increase of 13.5%. Our stated strategy is to increase dividends in excess of inflation every year and I am pleased to say we have delivered this each year since we converted to a REIT.

Outlook

Highcroft is well positioned with high quality income producing portfolios. However, we expect 2019 to be a challenging year. We operate in a very competitive landscape with continuing political and economic uncertainty, particularly around Brexit and its potential effects on market sentiment and tenants' ability to continue to pay our rents. We therefore remain cautious and diligent in our approach to ensuring we select the right properties to deliver long-term shareholder value.



Charles Butler
Chairman

Group at a glance

Our 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.

Read more about **Our business model** on page 09

Highcroft Investments PLC

↓

Group administration

↓

Property investments

Rodenhurst Estates Limited | **Belgrave Land (Wisbech) Limited**

Our property assets

Our property assets are valued at £77,700,000. During the year our property assets increased in value by 1.1% on a like-for-like basis and by 0.8% taking into account our acquisitions and disposals during the year.

Property

		£'000
1	Retail park, Wisbech	7,800
2	Retail warehouse, Grantham	7,450
3	Retail warehouse, Bicester	7,150
4	Warehouse, Nottingham	6,000
5	Leisure unit, Rubery, Birmingham	4,925
6	Warehouse, St Austell	4,900
7	Warehouse, Milton Keynes	4,900
8	Warehouse, Ash Vale, Aldershot	4,415
9	Radio station and office building, Oxford	3,735
10 11	Two retail units, Oxford	3,635
12	Warehouse, Andover	3,450
13	Distribution centre, Kidlington, Oxfordshire	3,375
14	Office building, Cardiff	3,200
15	Warehouse, Bedford	3,100
16	Retail warehouse, Crawley	3,050
17	Multi-let leisure unit, Coventry	2,275
18	Retail unit, Leamington Spa	1,685
19	Retail unit, Oxford	1,415
20	Retail unit, Norwich	1,240

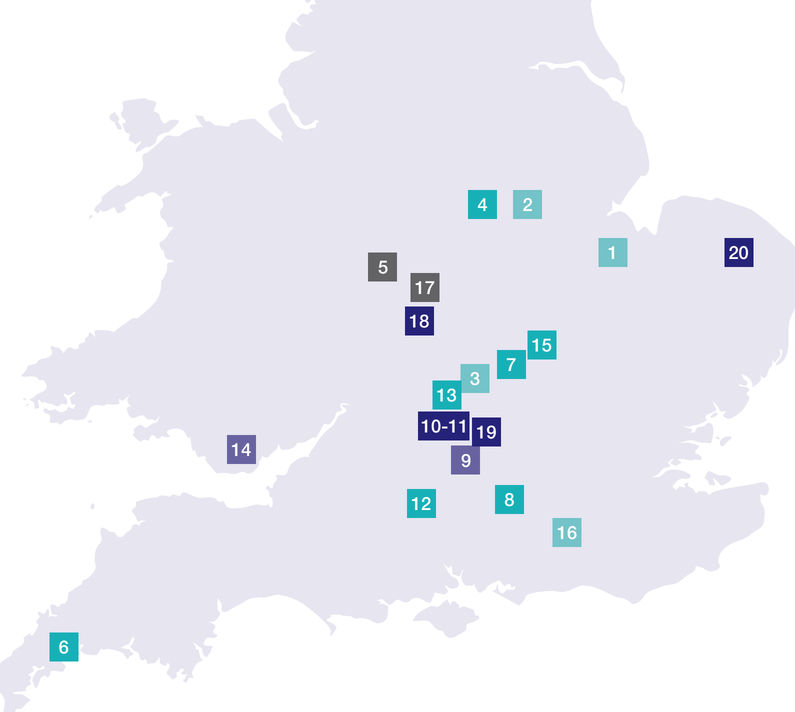
Total property asset value

£77.7m

Property investments

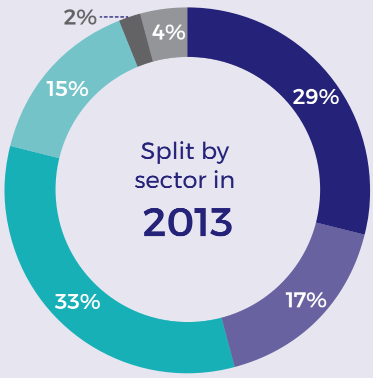
We own 20 commercial properties, predominantly in southern England and Wales.

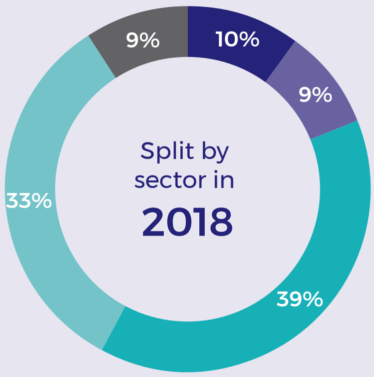
Read more about **Our portfolio** on pages 06 to 07



- Retail unit
- Office building
- Warehouse
- Retail warehouse
- Leisure unit

Property investments – shift in portfolio sector balance





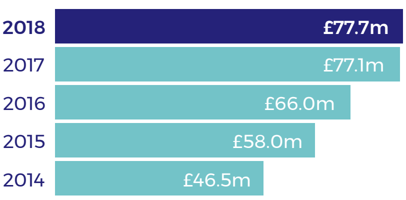
- Retail unit
- Office building
- Warehouse
- Retail warehouse
- Leisure
- Residential

Shift in portfolio

In 2013 the directors set an objective to rebalance the portfolio to take advantage of a changing property market. The emphasis was to move away from high street retail as shopping patterns were changing, principally due to the internet, and to focus more on warehousing and retail warehousing. It was decided that as the cost of managing the small residential assets in the portfolio was disproportionate to their value the group would divest of all of its residential properties. We managed to do this whilst the market was strong, and reinvested the proceeds into the other sectors.

Investment properties at annual valuation

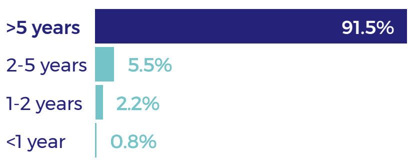
£77.7m +0.8%



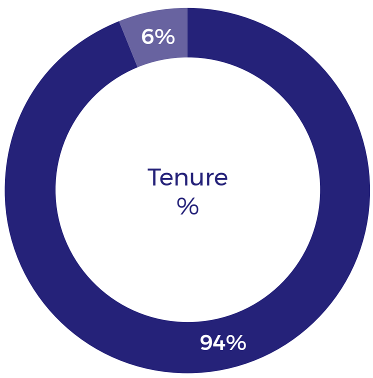
Weighted average lease length

6.5 years

Weighted average lease expiries

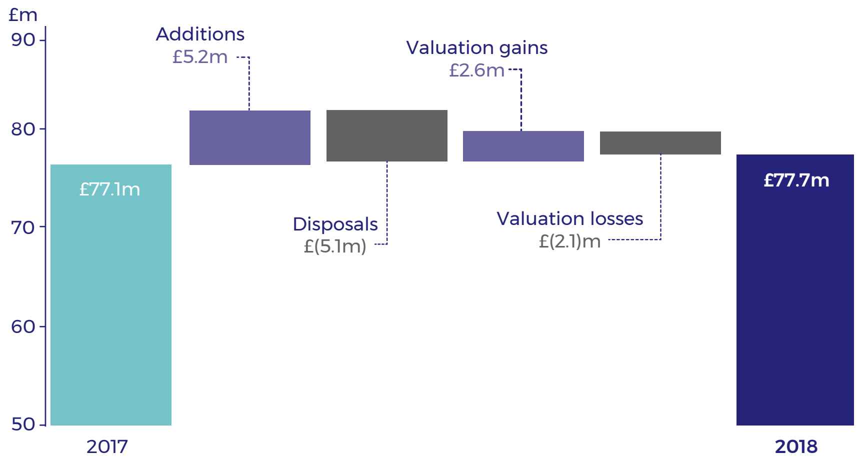


Split by tenure



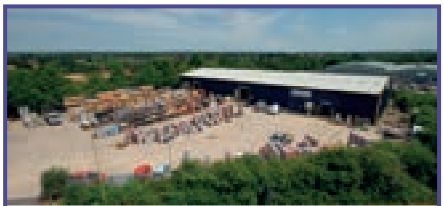
- Freehold **£73.25m**
- Long leasehold **£4.45m**

Movements in property assets value +0.8%



Our portfolio

20	27	100%
Number of properties	Number of tenancies	Occupancy

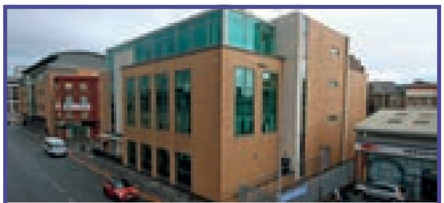


Andover
Long leasehold industrial investment
19,330 sq ft
Let to Saint-Gobain t/a JEWSON

Ash Vale
Freehold warehouse unit
25,000 sq ft
Let to SIG

Bedford
Freehold warehouse unit
40,500 sq ft
Let to BOOKER

Bicester
Freehold retail warehouse
29,130 sq ft
Let to Wickes



Cardiff
Freehold offices
17,800 sq ft
Let to ARRIVA

Coventry
Freehold leisure investment
5,955 sq ft
Let to GREGGS SUBWAY

Crawley
Freehold retail warehouse
6,900 sq ft
Let to pets at home

Grantham
Freehold retail warehouse
42,000 sq ft
Let to B&Q M&S

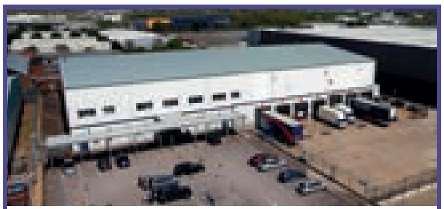
Kidlington
Freehold warehouse investment
30,250 sq ft
Let to

Leamington Spa

Freehold shop

5,721 sq ft let to Sabre Retail Ltd

t/a MINT VELVET



Milton Keynes

Freehold warehouse unit

43,500 sq ft

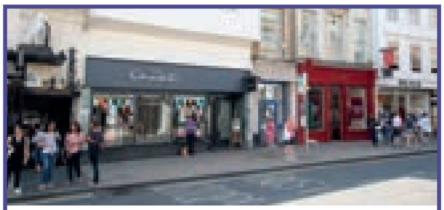
Let to IKEA

Norwich

Freehold shop

5,530 sq ft

Let to Harriets

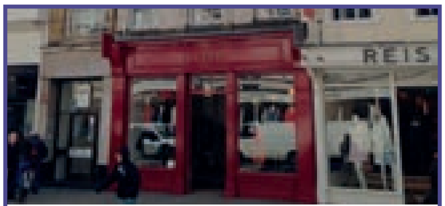


Oxford High Street

Freehold High Street property

1,740 sq ft

Let to Hotel Chocolat



Oxford High Street

Two High Street properties

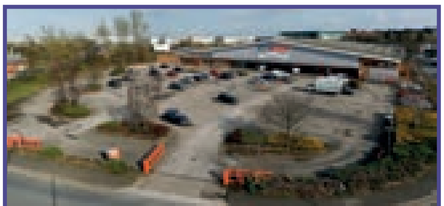
6,895 sq ft one long leasehold, one freehold, let to Robinson Webster t/a JIGSAW

Oxford Summertown

Freehold offices

11,500 sq ft

Let to BBC



Nottingham

Freehold warehouse unit

84,000 sq ft

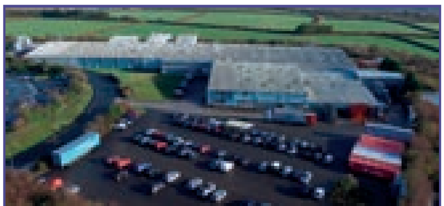
Let to BOOKER

Rubery

Freehold leisure investment

37,540 sq ft

Let to Nuffield Health



St Austell

Freehold warehouse/industrial

250,000 sq ft

Let to Waitrose

Wisbech

Freehold retail warehouse park

55,650 sq ft

Let to Currys PC World, halfords, pets at home, Dunelm mill, Carpetright

Our portfolio key

- Retail unit
- Office building
- Warehouse
- Retail warehouse
- Leisure unit

Read about our **recent acquisition** on page 14

Our marketplace

Macroeconomic landscape

The UK economy grew by 1.4% in 2018, the lowest growth since 2012. Uncertainty over the UK's future relationship with the EU was a dominant and overbearing factor throughout the year and is expected to continue into 2019 with the latest growth forecast at 1.2%, the lowest since 2009.

According to the MSCI IPD quarterly Index, UK commercial property delivered a total return of 6.0% in 2018, capital growth reached 1.4% whilst the income return equalled 4.6%. Momentum was, however, slowing in Q4 and this has continued into Q1 2019 with a total return of 0.2%, down 10bps from the December 2018 result.

Market trends	What this means for Highcroft	Our response to these trends
Retail		
▪ Increase in the number of retailers in difficulties due to: increased business rates, increased national minimum wage and pension costs.	▪ During 2018 we had one tenant, Carpetright, enter into CVA and had a 30% rent reduction imposed for three years.	▪ We continue to review our tenant covenants and take steps to ensure that our assets remain well let and located in areas where their businesses should succeed.
▪ Increase in on-line retailing.	▪ A potential impact on the future rental growth of our high street retail and retail warehouse assets.	▪ We are divested of the majority of our high street assets and closely monitor our retail warehouse properties.
▪ Inflation is at an 18 month low and interest rates remain, and are forecast to remain, relatively low.	▪ Consumer confidence may increase once the uncertainties associated with Brexit have been dealt with.	▪ We have ensured that we retain certain assets in this sector which are well placed to do well if retail spending increases.
Industrial and offices		
▪ Increased demand for warehousing and logistics partly due to the increase in online retailing and businesses stockpiling for Brexit.	▪ This sector becomes more expensive for us to buy but we still seek opportunities.	▪ Where appropriate we will sell if we think the price is exceptional and we can reinvest the proceeds to show a better return.
▪ Increase in demand for office space in central London.	▪ The achievable yields reduce and make them even more unattractive to Highcroft.	▪ We continue to look outside London for assets with the correct combination of property fundamentals to fit with our strategy.
▪ Increase in demand for flexible offices as tenants are unwilling to commit to long-term leases whilst economic uncertainty exists.	▪ The office sector of our portfolio is small but securely let on standard leases.	▪ We are unlikely to buy in the areas where flexible offices are in demand ie. in the centre of major cities where the yields are very low.
Investment		
▪ Investment volumes across all sectors reduced by 8% to £61 billion.	▪ The market is still huge and should provide opportunities for Highcroft to both acquire and dispose of assets in line with our strategy.	▪ We continue to consider additional ways of accessing investment opportunities.
▪ Sterling weakness continued during 2018 with increased weakness against the US dollar.	▪ Foreign investors remained confident in the UK property market and carried out 43% of UK commercial acquisitions.	▪ We have to remain proactive in sourcing and securing transaction opportunities that fit our strategy.
▪ Local authorities continued to have access to well-priced debt and were active acquirers.	▪ Local authorities were another strong source of competition in the marketplace. They have spent over £4bn over the last four years and represent over 3% of all commercial property investment.	▪ We took advantage of their acquisition strategy with the disposal of one of our assets at a 35% premium to our June 2018 valuation.
▪ Investment monies, particularly from overseas investors, were targeting secure income investments.	▪ There was an increased demand for alternatives such as student housing, hotels, leisure and healthcare, particularly where longer term leases are available to provide a secure income stream for the future.	▪ We continue to review acquisition opportunities in this sector. We have increased our holdings with our recent acquisition of a well let health club.

Our business model

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 secure 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 that our performance is in line with our objectives.

Financial strength
We have a medium 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 pages 06 and 07, they are mainly large commercial companies requiring property on long-term leases.

We are...

Opportunity Driven

What we do:
We research, identify and react quickly to market opportunities creating competitive advantage. Using our property management skills we create opportunities within our portfolio to improve value and/or yield.

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

Strong revenue streams:
We sustain income through letting our properties to commercial tenants on long leases and managing our properties ensuring we continually meet the needs of our tenants.

The value we generate...

Shareholders

Short-term
Secure dividend income stream.

Medium-term
Income growth in excess of inflation.

Long-term
Increased shareholder value via sustained capital and income growth arising from our low-risk business strategy.

Tenants

Short-term
Supportive landlord/asset manager/tenant relationships.

Medium-term
Improving environments as opportunities to enhance our properties are identified and actioned.

Long-term
High quality environments which help our tenants succeed with their business strategy.

Society

Short-term
Taking cost-effective action to reduce the environmental impact of our properties.

Medium-term
Helping to support the terminally ill and disadvantaged via our charitable donations.

Long-term
Enabling economic prosperity by supporting the provision of appropriate space in appropriate locations to encourage employment and business to flourish.

Our strategy

The objective of the group is to generate secure and sustainable income growth to drive a progressive dividend which, together with capital value growth, will deliver strong total shareholder returns. 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 2018	Future opportunities	Link to risk – page 19
Building a portfolio of high quality commercial properties in the right places occupied by the right tenants with good lease fundamentals					
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 acquisition in Rubery and disposals of our Cirencester and Southampton assets have resulted in a larger portfolio which retains the preferred location bias although has spread our geographical coverage in order to ensure that adequate yields are maintained.	▪ As asset sourcing remains challenging in 2019 the geographical spread may need to be expanded to ensure that adequate yields are maintained without increasing the inherent risk to an unacceptable level.	1, 2, 4, 6
B	Increase the average lot size to £5m, with no asset representing more than 15% of the portfolio.	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 £3.9m from £3.6m.	▪ Future growth will come from revaluation gains, new assets being bought that are larger lots than our average and also from the disposal of smaller underperforming units.	1, 2, 4, 6
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 for future growth.	We sold our last remaining residential asset in 2018 and reinvested the proceeds into the commercial property portfolio.	▪ This strategy is complete.	2, 6
D	Seek capital growth opportunities within our property asset base.	Identifying growth opportunities will enable either enhanced sales prices to be achieved or improve the yield from our properties.	Detailed planning application granted for three A3 units at our Wisbech property.	▪ Options are being considered for additional asset management opportunities.	4, 6
Using available capital, including debt, efficiently and effectively					
E	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.	£1.3m realised from equities during 2018.	▪ £724,000 of cash released from the equity portfolio in February 2019 reducing our holding of listed equity investments to £nil.	6
F	Use medium-term gearing at a modest level.	The use of keenly priced debt to expand our property portfolio should increase our net property income.	£5.2m of acquisitions funded by a combination of £1.3m from equity disposals and part of the £6.1m generated from property disposals. There remains a cash balance available at the year end to invest in 2019. Our debt remains at £19.4m	▪ We have negotiated headroom with one lender of £10.4m and would consider additional gearing to fund further acquisitions alongside existing cash resources.	2, 5, 6
Deliver a sustainable income growth to our investors					
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 13.5%	▪ As a REIT we are required to distribute 90% of our net property income.	ALL

Our key performance indicators (KPIs)

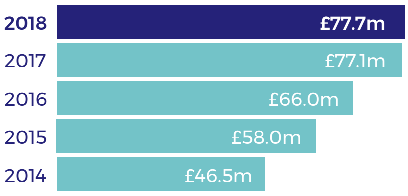
The following key performance indicators are considered to be the most appropriate for measuring how successful the company has been in meeting its strategic objectives. During 2018 the board reviewed its KPIs and, in line with best practice, included an additional non-finanical KPI, maintaining the quality of the tenant covenants and removed the KPI relating to total earnings per share, as being less relevent to the company's strategic objectives.

KPI Key

1–4	Financial KPIs
5–6	Non-financial KPIs

1 Increase value of property assets

£77.7m +0.8%



Link to strategic priorities:

A D E G

Why we use this indicator

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

Commentary on performance

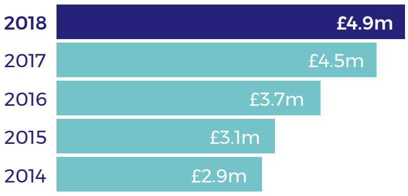
The value of our assets has increased by £484,000, 1.1% on a like-for-like basis. Taking into account our December 2018 asset disposal our adjusted like-for-like increase was 2.4%. For more details see page 12 .

Looking forward

The sector and geographical spread of our assets together with the lease lengths and covenant strength result in a portfolio that should perform well in a challenging market.

2 Increase in net property income

£4.9m +7.8%



Link to strategic priorities:

A B D E F G

Why we use this indicator

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

Commentary on performance

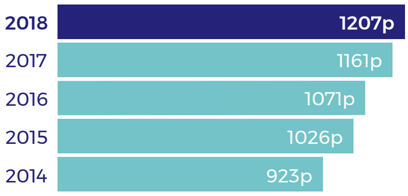
Net property income increased by 7.8% in the year and has increased by 66.3% over the last five years.

Looking forward

Net property income may increase in 2019 through a combination of investment of surplus cash, limited additional gearing, lease events on existing assets and the effect of a full year's income from our 2018 acquisition.

3 Increase in net asset value per share

1207p +4.0%



Link to strategic priority:

A

Why we use this indicator

Net asset value per share measures the value of shareholders equity in the business. It gives a simple, clear message of the overall performance taking into account asset performance, the result for the year and dividends to shareholders.

Commentary on performance

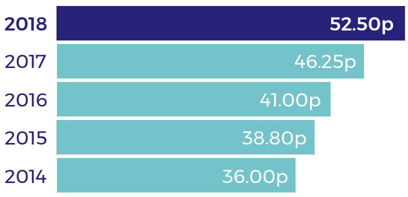
Net asset value per share increased by 4.0% in 2018 and has increased by 30.8% over five years.

Looking forward

The market remains challenging in 2019 but our asset base is strong and we believe that it is well placed to outperform the market in 2019.

4 Increase dividends payable to shareholders

52.50p +13.5%



Link to strategic priority:

G

Why we use this indicator

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

Commentary on performance

The 13.5% increase in 2018 is significantly in excess of inflation.

Looking forward

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

5 Maintain the quality of our tenant covenants

Link to strategic priority:

G

Why we use this indicator

This is an indication of the quality of our long-term income stream.

Commentary on performance

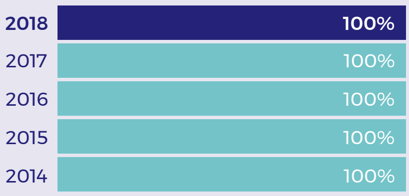
We continue to have the majority of our properties let to strong covenants.

Looking forward

The strength of the covenant will remain important in assessing new acquisitions.

6 Average occupancy levels

100%



Link to strategic priority:

G

Why we use this indicator

This indicator is a measure of the extent to which we are maximising income and minimising void costs.

Commentary on performance

We continue to have 100% occupancy which remains ahead of the market.

Looking forward

We shall strive to maintain this level of occupancy notwithstanding imminent lease events in the portfolio.

Operating review

> **"In an uncertain market we have continued with our strategy of purchasing well let, quality property investments that result in a larger average lot size."**

Property income

We had a strong operational performance in the year. We continued our track record of maintaining a 100% occupancy rate across the portfolio. We completed five rent reviews and had one rent reduction imposed upon us by the Carpetright CVA agreement. These activities together with the effect of our acquisitions and disposals resulted in an increase in our contracted rent and our gross rental income.

	2018 £'000	2017 £'000	Change
Contracted rent as at year end	**5,025**	4,966	+1.2%
Occupancy	**100%**	100%	–

This increase was affected by the sale of our Southampton property close to the year end where the proceeds were included as cash at the year end. Including this rent would have increased the contracted year end rent to £5,209,000; an increase of 4.9% in the year.

We have continued our five-year record of having no voids, or void costs in our portfolio. This is a result of our property and tenant selection and our very active approach to all potential lease events.

Investments

In line with our stated strategy we have:

- focused on our commercial property assets;
- sold our remaining residential asset; and
- reduced the proportion of our total investments held as equities.

During the year the group realised £1,333,000 (2017 £477,000) of cash from equities and reinvested this, together with the proceeds of disposal of one commercial property, and our remaining residential asset into one commercial property acquisition. As a result of this activity the proportion of our assets held as equities reduced to 0.9% (2017 2.7%).

We are continuing to progress our plans for the pre-lettings and development of three A3 units, where we have planning permission at one of our retail warehouse sites. Due to the uncertainties that have existed in the market during the year this activity is taking longer than was originally anticipated.

Our property valuation increased by 0.8% and our like-for-like valuation (which excludes the effect of acquisitions and disposals in the year) increased by 1.1%, just below the market return of 1.4%. However, taking into account the Southampton disposal that took place in December 2018 our adjusted like-for-like increase was 2.4% which is pleasingly in excess of the market. The industrial/warehouse sector performed well generally as evidenced by an increase in excess of 15% in the valuation of our Bedford property where there had been a 3.3% rent increase during the year, and a 13% increase on our Milton Keynes property where there had been no asset management initiatives. Five more of our properties showed valuation increases ranging from 1% to 9%, primarily arising from the market sentiment in their particular sector. Six of our properties showed revaluation losses. The most significant loss was at our retail park in Wisbech, our largest asset, which showed a 13% decline in value due to a combination of declining market sentiment around certain retail warehouses and the effect of the Carpetright CVA. Our new asset at Rubery, acquired in July 2018 was valued at cost and therefore showed a loss on revaluation relating to the expenses of acquisition. Our Cardiff asset showed a 10% fall in valuation due to the short time to lease expiry. We also recorded three small falls on our Oxford High Street retail properties, reflecting the general market sentiment in the sector.

Property disposals

In May 2018 we completed on the sale of our multi-let high street retail unit in Cirencester for an amount of £100,000 in excess of the December 2017 valuation. This property had been acquired in 2004 when town centre retail trading had not encountered the full effect of internet competition. The property was identified as one with little opportunity for capital growth and where the sector, the fact that it was multi-let and the relatively low gross rental yield of 6% all contributed to a decision to sell. In December 2017 following the failure of the tenants' leasehold enfranchisement appeal at our one remaining residential asset, we decided to dispose of this asset. It was finally disposed of, to the tenants, in June 2018 at a loss of £98,000 to the December 2017 valuation but £325,000 in excess of their proposed enfranchisement value. Finally, we completed on the sale of our long-leasehold Southampton asset in December 2018. This property had been identified as one where, due to particular demand in the market, an excellent yield could be achieved. This, together with the fact that we were anticipating that the tenant would vacate at the lease end in 2020 and an associated potential void period of several months, led to our decision to sell. We achieved an excellent result of proceeds of £3,670,000, representing a net yield of 4.7% and 34.6% in excess of the June 2018 valuation and 38.5% in excess of the December 2017 valuation. See case study on page 14.

Property acquisitions

In July 2018 we acquired a freehold leisure unit in Rubery, Birmingham, let to Greens Health & Fitness Ltd (a subsidiary of Nuffield Health) on a lease expiring in October 2024. The current rent of £365,867 pa is subject to a review in October 2019. The purchase price was £4,925,000 (net of costs) to provide a net yield of 7.0%. More details can be found on page 14.

Sector balance and outlook

During the past five years we have gradually reshaped the portfolio to minimise our risk to the weaker sectors of the property market. This has led to the sale of some of our high street retail assets at a time when private investor demand for smaller property investments has been strong, producing good results; the proceeds of these sales have been reinvested into larger properties in stronger sectors. Further information can be found on pages 02 and 06 to 07.

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

	2018 %	2017 %	2016 %	2015 %	2014 %
Warehouse	**39**	40	29	34	38
Retail warehouse	**33**	34	39	33	20
Retail	**10**	13	18	20	23
Office	**9**	9	10	12	14
Leisure	**9**	3	3	–	2
Residential	**–**	1	1	1	3
Total	**100**	100	100	100	100

39% of our portfolio (by valuation) is in warehousing and 33% in retail warehousing and we continue to look for opportunities to invest in properties that will enhance shareholder return, whilst being mindful of our overall risk appetite. We consider that the portfolio has been reconfigured to provide good shareholder returns for the future. We will continue to look at other sectors of the property market, including those where we do not currently have any investment, but which may afford us opportunities to increase our returns and spread our risk.

Simon Gill
Chief executive

Case studies – Recent acquisition and disposal

Aquisition

Nuffield Health & Fitness Club, Rubery, Birmingham

Occupied by:
Greens Health & Fitness Ltd

Reason for acquisition

In July we acquired the freehold interest in the Nuffield Health & Fitness Club, Rubery, Birmingham, which comprises a purpose built health club totalling approximately 37,500 sq ft let on a single lease to Greens Health & Fitness Ltd (a subsidiary of Nuffield Health) until October 2024. The property is situated in an established leisure location where adjoining occupiers include Empire Cinemas, Gala Bingo, Premier Inn, Hollywood Bowl and others. It also adjoins the Parklands office park where occupiers include Compass Group and Regus.

This is a modern health club offering a full range of facilities and services in the Rubery and Longbridge area which is scheduled for further residential and business development.

How this links to our strategy

The acquisition links to several of our strategic priorities: growing our property portfolio, increasing our average lot size and seeking assets that may provide capital growth opportunities all linked to our overall strategy of providing enhanced returns to our shareholders.

- Purchased: July 2018
- Current tenant: Greens Health & Fitness Ltd (a subsidiary of Nuffield Health)
- Rental income: £365,867 pa
- Cost: £5,226,000 (£4,925,000 net of costs)
- Net initial yield: 7.0%
- December 2018 valuation: £4,925,000

This location provides an opportunity for growth in the future and the provision of a swimming pool at the property is an advantage over other health clubs in the area. Completion of the purchase was achieved, and environmental and structural surveys undertaken, within four weeks of solicitors being instructed – once again showing our ability to respond when the right opportunity arises.

Disposal

Metabo, Nursling Industrial Estate, Southampton

Occupied by:
Metabo (UK) Ltd

Reason for disposal

This was a long leasehold, single let, warehouse property of approximately 25,300 sq ft let to Metabo (UK) Ltd on a lease expiring in September 2020 producing an income of £184,000 pa.

The tenant had indicated that it was unlikely to renew its lease in 2020 which would have led to a likely void period of several months once marketing and a rent-free period is taken into account. It was decided to take advantage of the strongest sector of the current market and a particularly strong local demand that enabled us to achieve an excellent result.

How this links to our strategy

This disposal links to our strategic priorities of increasing our average lot size and growing our property portfolio. As this property was of a lower than average lot size it was considered that the sale proceeds from this property taken together with future disposals from the equity portfolio and potential new debt could be invested to acquire a larger asset with a higher yield, thus increasing the size of our portfolio.

- 2006 cost: £2,489,000
- June 2018 valuation: £2,725,000
- Tenants: Metabo (UK) Ltd
- Rental income: £184,000 pa
- Sale price: £3,670,000
- Net yield: 4.7%

This disposal in December 2018 was 34.6% in excess of the June 2018 valuation and highlights our ability to recognise, react to and capitalise on market trends.

Financial review

> **Our financial performance for the year was robust – with increasing rents, net assets per share and dividends."**

Overview

	2018	2017	Change in year
Profitability			
Net rental income	**£4,859,000**	£4,506,000	+7.8%
Adjusted earnings per share (note 7, page 56)	**87.3p**	64.8p	+34.7%
IFRS profit for the year	**£4,926,000**	£6,835,000	–27.9%
Net admin expenses to gross rent	**14.6%**	13.9%	+70bps
Investment returns			
Net asset value per share	**1207p**	1161p	+4.0%
Dividend per share	**52.50p**	46.25p	+13.5%
Return on equity*	**8.1%**	11.9%	–32.0%
Financing			
Net debt	**£14,198,000**	£17,496,000	-£3,298,000
Net debt to property value	**18%**	23%	–5%
Average cost of debt	**3.64%**	3.64%	–

* Defined as total profit and comprehensive income divided by average total equity.

The group has continued to perform strongly during the year; gross rental income increased by 5.8% to £5,043,000 and net rental income by 7.8% to £4,859,000. This has arisen from rental growth, from net acquisitions in the year and recognising a full year of income from our two acquisitions completed in March and June 2017. Whilst our administrative and finance costs also increased in the year our underlying revenue profit (excluding realised and revaluation gains) has increased by 5.9% and has supported an increase in our dividend of 13.5%.

The IFRS profit for the year has reduced by £1,909,000 primarily due to the property valuation gains being £2,804,000 lower than 2017 offset by an increase in the gain on property disposals of £966,000.

Net assets have increased by 4.0% to £62,384,000 and we have a modest net debt to property value of 18%. The average cost of debt is 3.64%. Our investment properties increased in value by £484,000 (1.1% on a like-for-like basis). Our remaining equity investments showed a loss in value of £121,000 during the year.

We are proposing a final dividend this year of 33.75 pence per share giving a total dividend for 2018 of 52.50 pence per share, an increase of 13.5%. Since 2009 (our first full accounting year as a REIT) our dividends have risen by a total of 102% – a compound annual increase of 8.1%. In the same period our net assets per share have increased by 81% from £6.66 to £12.07 per share.

Financial review continued

Income

Total income has increased by 4.9%.

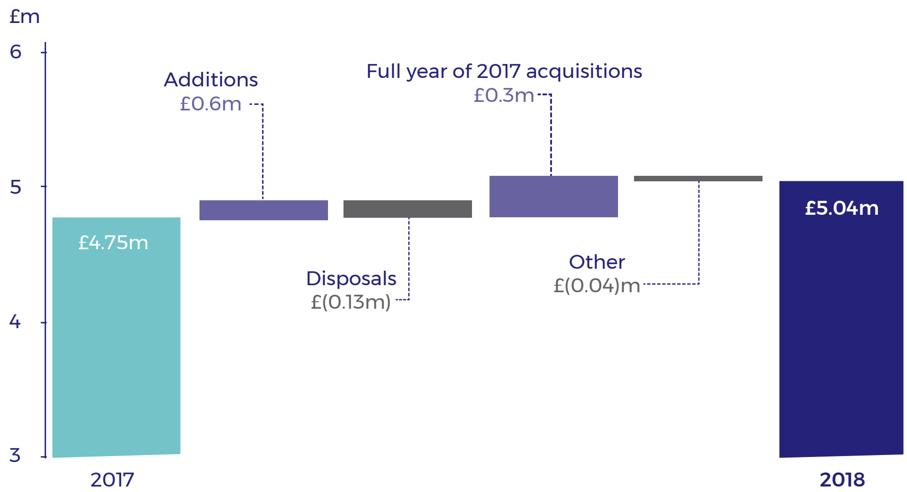
	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Commercial property income	**5,035**	4,749	3,886	3,402	3,044
Residential property income	**8**	16	20	33	35
Gross income from property	**5,043**	4,765	3,906	3,435	3,079
Income from equity investments	**54**	92	144	182	437
Total income	**5,097**	4,857	4,050	3,617	3,516

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

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

	2018 %	2017 %	2016 %	2015 %	2014 %
Increase in gross rental income	**6**	22	14	12	13

Growth in commercial property income



Administration and other expenses

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Directors' remuneration	**541**	492	451	378	306
Auditor's remuneration including other services	**32**	31	58	37	34
Other expenses	**163**	140	142	118	92
Administration expenses	**736**	663	651	533	432
Net finance expense	**699**	649	495	358	170
Total expenses	**1,435**	1,312	1,146	891	602

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 from the full year effect of the increase of £4,500,000 in medium-term borrowing that took place in June 2017. Other expenses have increased due to rises in tax fees, legal fees, charitable donations and the cost arising from recruiting a replacement part-time management accountant.

Summary of profit before tax and income tax credit on revenue activities

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Profit before tax	**4,445**	3,287	2,840	2,815	3,693
Income tax credit	**67**	61	72	56	65
Profit for the year	**4,512**	3,348	2,912	2,871	3,758

The increase in the revenue profit for 2018 was influenced by an increase in net rental income of £353,000, an increase in net realised gains on investment property of £966,000, a decrease in dividend revenue of £38,000, and increases in administration expenses of £73,000 and net finance expenses of £50,000.

Assets

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Commercial property*	**77,700**	76,315	65,413	57,505	45,215
Residential property*	**–**	798	584	459	1,308
Equities	**679**	2,131	2,469	3,155	4,532
Total investments*	**78,379**	79,244	68,466	61,119	51,055

* Including assets held for sale in previous years classified as current asset investments.

Our total investments decreased due to a combination of acquisitions and revaluation gains, net of disposals. The net proceeds of £3,662,000 received in December 2018 from the sale of our Southampton property were held in cash at the year-end pending re-investment into the property portfolio.

Summary of property investment activities

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Additions at cost	**5,226**	10,086	9,896	8,590	6,084
Net proceeds from disposals	**(6,090)**	(2,259)	(2,972)	(2,332)	(3,548)
Net (divestment)/investment (from)/ into the property portfolio	**(864)**	7,827	6,924	6,258	2,536

Realised and unrealised property gains

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Realised gains on investment property	**967**	1	134	418	941
Realised losses on investment property	**–**	–	–	–	(4)
	967	1	134	418	937
Revaluation gains on investment property	**2,600**	3,365	2,509	4,840	3,785
Revaluation losses on investment property	**(2,116)**	(77)	(1,536)	(75)	(150)
	484	3,288	973	4,765	3,635

The realised gains arose as follows:

	£'000
Gain on disposal of Southampton	1,012
Gain on disposal of Cirencester	74
Loss on disposal of residential asset	(119)
	967

Financial review continued

Overall, our property portfolio increased in value during the year by £484,000 which represents 1.1% on a like-for-like basis. Two of our most significant revaluation gains related to three of our warehouse properties - in Milton Keynes, Nottingham and Bedford where market sentiment improved significantly. The most significant revaluation loss in the year relates to our Wisbech asset where the disappointing effect of the Carpetright CVA, where we have had a rent reduction of 30% for three years, coupled with a move in market sentiment, has resulted in a reduced valuation.

Equity investments

In 2018, in line with our strategy to sell down the portfolio and reinvest in new commercial property, we released £1,333,000 of cash from our equity portfolio during the year and invested this, together with the proceeds of sale of our Cirencester and our residential asset, into our Rubery asset. Our portfolio is now spread across eight holdings of which 64% are in overseas stocks.

Additional information regarding performance is in note 9 to the consolidated financial statements.

Financing and cashflow

Net cash generated from operations was £52,000 higher at £3,620,000. It is the directors' intention to reinvest surplus cash into the commercial property portfolio when suitable opportunities arise.

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Opening cash	**1,904**	3,369	4,852	2,039	3,128
Net cash from operating activities	**3,620**	3,568	2,909	2,523	2,910
Investment acquisitions - property	**(5,226)**	(10,086)	(9,896)	(8,590)	(6,084)
Investment acquisitions - equities	**–**	–	(3)	(7)	(649)
Investment disposals - property	**6,090**	2,259	2,972	2,332	3,548
Investment disposals - equities	**1,333**	477	1,176	969	969
Dividend paid	**(2,519)**	(2,183)	(2,041)	(1,914)	(1,783)
Medium-term loan	**–**	4,500	3,400	7,500	–
Closing cash	**5,202**	1,904	3,369	4,852	2,039

Analysis of borrowing

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Handelsbanken term loan 2027	**4,500**	4,500	–	–	–
Handelsbanken term loan 2026	**3,400**	3,400	3,400	–	–
Handelsbanken term loan 2022	**7,500**	7,500	7,500	7,500	–
Handelsbanken term loans 2020	**4,000**	4,000	4,000	4,000	4,000
Total debt	**19,400**	19,400	14,900	11,500	4,000
Cash	**(5,202)**	(1,904)	(3,369)	(4,852)	(2,039)
Net debt	**14,198**	17,496	11,531	6,648	1,961
Net assets	**62,384**	59,977	55,325	53,023	47,702
Gearing (net of cash)	**23%**	29%	21%	13%	4%

Our average cost of total debt was 3.64% (2017 3.64%).

Outlook

The investment and occupational commercial property market remain cautious in the current macroeconomic climate. However, we believe that the quality of our assets, our ongoing asset management programme and spread of sector risk all combined with our concentration of assets in the south east of England and Wales means that we are in a strong position to deliver a secure dividend return to our shareholders.

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
21 March 2019

Our risks

Risk appetite

Whilst risk is an inherent part of our business model, the group's general appetite for risk is low. The board reviews, manages and controls our risks in the light of this assessment.

Risk management

The board recognises that risk management is essential for the achievement of the group's strategic objectives. The board carried out a robust assessment of the group's emerging and principal risks in December 2018. The principal risks that have been identified and the management and/or mitigation of these risks is set out below. The procedures in place to identify emerging risks and to reduce the uncertainties associated with them are also included in the table below as the board has identified that they are likely to be linked to our existing principal risks.

The board is responsible for the system of internal control, including financial, operational and compliance controls, and the review of its effectiveness.

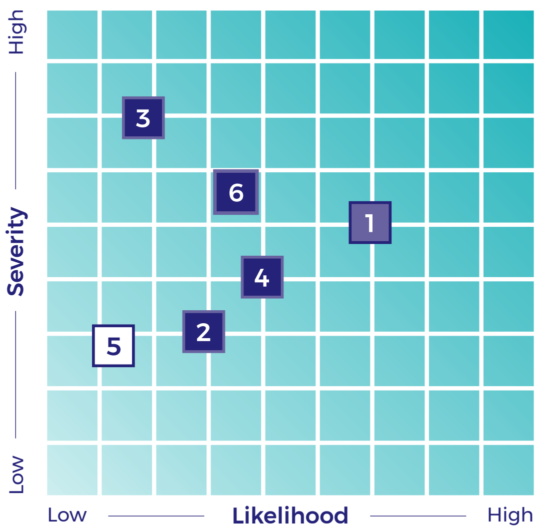
Our approach to risk management is to identify both the financial and non-financial risks that may prevent the attainment of our strategic objectives, our future performance, solvency or liquidity. We then evaluate the risks and take any appropriate action to reduce or remove the likelihood of these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

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.

> **"Effective risk management is integral to our strategy of delivering long-term sustainable income and capital growth."**

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.



Risk heat map key

1. Ongoing 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 focus

- Low priority
- Medium priority
- High priority

Our risks continued
Principal risks and uncertainties facing the business

We have reviewed the risks in the year. The table below summarises the principal 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.

Principal risk	Potential impact of risk	How we manage/mitigate the risk
1 Further economic uncertainty Link to strategic objectives A B G	The economy falters or enters a period of uncertainty. **Impact:** Poorer than expected revenue and capital performance as tenants have difficulty paying their rent and continuing to trade.	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, and spreads its investment risk across a number of sectors (retail, office, retail warehouse, leisure and warehouse) adjusting the investment bias in line with the directors' interpretation of market trends. 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 minimised. Rent collections are regularly reviewed by our property managers and monitored by the executive directors.
2 Inappropriate business strategy Link to strategic objectives A B C E G	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.	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.
3 Failure to meet legislative requirements Link to strategic objective G	The group fails to meet its REIT requirements. **Impact:** Potential expulsion from the REIT regime, higher costs for the group and reduced dividends for shareholders.	The board monitors compliance with REIT criteria, including the distribution requirement, 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.
4 Inability to source new assets Link to strategic objectives A B E G	The group is unable to source new property with suitable fundamentals. **Impact:** Reduced profitability, growth and return to shareholders as our liquid assets and potential debt facilities are not fully invested.	The board has an extensive network of contacts in the property industry and is able to identify both on and off-market opportunities at an early stage. The board is open to alternative acquisition methods such as corporate acquisition or development opportunities.
5 Lack of availability of finance Link to strategic objectives F G	The group is unable to fund investment opportunities at an appropriate cost. **Impact:** Growth of group curtailed and increased cost of funding.	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 preference is for fixed interest, non-amortising debt with a spread of maturity dates.
6 Key personnel Link to strategic objectives A B C D E F G	The group is unable to retain and attract high calibre directors. **Impact**: Negative impact on the group's performance as the team lacks the skills necessary to deliver business objectives.	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. An externally advised benchmarking exercise is taking place in 2019. 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. Future recruitment may require the use of a headhunter to source candidates with the appropriate skill sets.

Commentary	Movement in risk exposure	
Our property assets have performed well in the period. During 2018 bad debts were nil and we had no voids. Our rent collections were good and arrears are low. The group has 27 commercial tenancies and our five largest tenants by current passing rent provide 38% (2017 36%) of current income. Most of our tenants are affected by Brexit both indirectly, through heightened consumer uncertainty affecting retail sales and business confidence, and directly, through import/export and staffing difficulties. Notwithstanding our increase in net asset value, during 2018 our market capitalisation reduced by 0.3% due to heightened uncertainty in certain sectors of the equity market and particularly surrounding the Brexit process.	↑	Real estate values and discounts to net asset values for property investment companies remain at risk during the process of exit from the EU.
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. The board has carefully considered the change in retail behaviours in the UK and altered its strategy accordingly.	↑	
Equity investments are a smaller percentage of our total assets. Interest cover and other ratios are well within acceptable limits and do not give a cause for concern. The board monitors the distribution requirement carefully together with its professional advisers.	→	
Our ability to react swiftly to opportunities meant that we were able to source new investment property in 2018. The market, however, remains tough and the availability of suitable assets with appropriate property fundamentals is low.	↑	The process of Brexit and the associated currency market movements have encouraged overseas investors into the market, resulting in increased competition. Local authorities continue to have access to well-priced funding and provide additional competition.
Our level of debt remained unchanged in 2018 at £19.4m (2017 £19.4m). We have headroom with one lender of £10.1m, and an overdraft facility of £0.5m. A number of lenders have expressed interest in lending to the group. Net gearing is 23% (2017 29%).	→	
There were no executive board changes during the year. The remuneration committee has carefully considered the performance-related element of remuneration and the directors are proposing a share performance plan to the shareholders at the 2019 AGM.	→	

Strategic priorities key

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** Seek capital growth opportunities within our property asset base
- **E** Continue to reduce the proportion of our assets held in equities and reinvest in commercial property
- **F** Use medium-term gearing at a modest level
- **G** Provide a dividend increase in excess of inflation

Read more about **Our strategy** on page 10

Risk key

1 Ongoing 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

See our **Risk heat map** on page 19

Our risks continued

Brexit

There is continued uncertainty surrounding the potential impact of Brexit and this, coupled with the attractive exchange rates for foreign investors resulting in further inflow of foreign funds, has created a more competitive marketplace. We have not, to date, seen any material impact on our own tenants arising from the Brexit process, however there is an ongoing risk that investor and occupier demand could be negatively impacted. We anticipate that the strengths of our portfolio – in terms of location, lease lengths, covenants and sector spread will minimise the impact of this risk.

Our tenants are spread across a range of business sectors, The majority of them are heavily exposed to either imports and/or exports and to the need to have access to an appropriate workforce. There is therefore a concern that many of our tenants' business models may be adversely affected in the short and medium-term by the current Brexit process.

Going concern

At 31 December 2018 the group had fixed-term non-amortising borrowing of £19,400,000 that expires in the period 2020-2027, and has additional headroom available of £10,600,000. As part of this headroom the group has an overdraft facility of £500,000 and has a relatively low level of net gearing of 23%. 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 and it had £670,000 of 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 accounts.

Viability statement

In accordance with C.2.2 of the 2016 UK Corporate Governance Code and provision 31 of the 2018 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 five years to coincide with its detailed review of the group's financial budgets and forecasts. The period is consistent with the periods until the next lease event on many of our properties, and expires after the expiry of our first three term loans representing 59% of our total debt. This five-year period is considered to be the optimal balance between the long-term strategy of delivering sustainable income and capital growth and the fact that property investment is a long-term business, counterbalanced by the inherent uncertainties involved in medium to long-term forecasting in an industry that has been cyclical in nature.

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 20 to 21, 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 five-year period of their assessment.

Read more in **Governance** on pages 24 to 43

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 team and believe that a diverse team is key to maximising business effectiveness. 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.

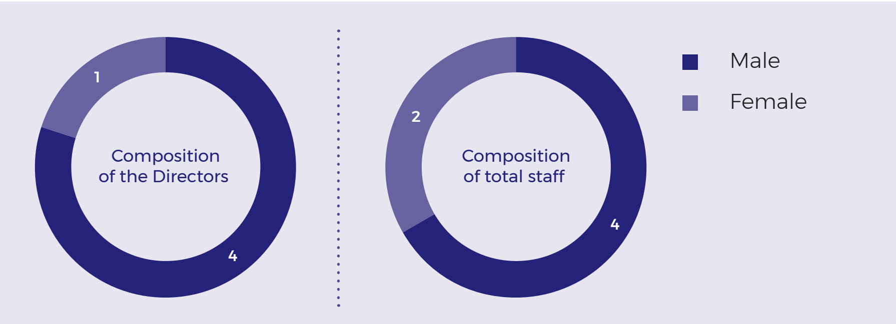
Employee alignment

We align our executive management team with our shareholders via the performance-related element of their remuneration. In order to increase the long-term alignment of the executives a resolution will be proposed at the 2019 AGM to introduce an incentive plan that includes a long-term share-based element. David Kingerlee, executive director, will be unable to participate in the long-term share-based element due to Kingerlee Concert Party restrictions. More details of the incentive plan can be found in the remuneration report on pages 34 to 40.

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 on the board and in its advisory teams. The diverse experience of the board is highlighted on pages 26 to 27.

At 31 December 2018, and throughout the year, the average composition of the group's employees was as follows:



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;
- all our property maintenance suppliers have SafeContractor accreditation. The vetting, tendering, appointment and management of these suppliers follows the principles of our asset manager's purchasing policy;
- our asset managers recognise the requirement for, and actively encourage, sustainable working practices to minimise environmental impacts both in respect of their own business activities and when managing clients' properties;
- our asset managers are committed to operating to an environmental policy and environmental management system that satisfies the requirements of BS EN ISO 14001: 2004 accreditation and as part of which they measure and set targets for improvement.
- We have EPCs on 17 of our 20 properties which show a weighted average rating of C which is above the national average.
- We have introduced a paperless strategy with our shareholders aiming to significantly reduce our use of paper.

Human rights

Highcroft is committed to the importance of respect for human rights and to ensure that people are treated with dignity and respect. We are committed to identifying, preventing and mitigating adverse human rights impacts caused by our business activities. We work with our asset managers to ensure that no forced labour or child labour is used and that all their subcontractors, working on our sites, are appropriately remunerated in accordance with laws and regulations.

Communities we serve

The board considers 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 would listen to any legitimate concerns raised.

Charity

During 2018, donations were made to local and national charities totalling £10,000. These charities support the sick, the terminally ill and the disadvantaged. Examples of our support include:

- funding two drop-in sessions for families of bereaved young people to enable them to receive individual advice and support;
- contributions towards the funding of palliative care in the local community;
- training of a small number of health professionals in specialist communication skills for end-of-life care;
- contributions towards national campaigns for support of those who suffer from abuse, neglect, autism and heart disease.

This strategic report on pages 08 to 23 was approved by the board and signed on its behalf

Simon Gill
Chief executive
21 March 2019

Chairman's introduction to corporate governance

> **"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."**

Welcome to the corporate governance section of the group's annual report. Whilst Highcroft is a relatively small premium listed group, good corporate governance remains one of our core values and we strive to follow the appropriate guidance and rules. We believe that good corporate governance helps to ensure proper oversight by the board and that we are taking the most appropriate actions in order to achieve our strategic objectives.

Compliance with the UK Corporate Governance Code

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. During 2018 the board complied with the provisions of the 2016 UK Corporate Governance Code (the 2016 Code) other than the fact that it did not have two independent non-executive directors in addition to the independent non-executive chairman. The board decided that the cost of compliance with this provision would outweigh any benefits given the small size and lack of complexity of the group.

The new 2018 UK Corporate Governance Code (the New Code) was released in July 2018, and applies to accounting periods commencing on or after 1 January 2019. The board has decided to adopt this New Code early. This New Code contains an updated set of principles that emphasise the value of good corporate governance to long-term sustainable success. It is intended that by applying the spirit of the principles, following the more detailed provisions and using the associated guidance, Highcroft can demonstrate, through its reporting, how the governance of the company contributes to its long-term sustainable success and achieves its wider objectives. Highcroft is compliant with the New Code other than in the areas listed on page 25 and we set out our explanations for the non-compliances and our proposed path to compliance, if appropriate.

Copies of the 2016 Code and the New Code are available at www.frc.org.uk.

Our strategy is set out on page 10. All board members support this strategy and ensure that any matters that it approves are in line with this strategy.

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 16 May 2019.

This governance report on pages 24 to 43 sets out in more detail our compliance with the 2016 Code and the New Code during the year and explains governance structure. All members of the board support the principles of good corporate governance and believe that we complied with the provisions of the 2016 Code as was appropriate throughout the year and that we comply with, or have identified a path to compliance with, the Principles in the New Code.

Charles Butler
Chairman

Compliance with the provisions of the 2018 UK Corporate Governance Code (the New Code)

The board considers that it is compliant with the provisions of the New Code other than as listed below:

New Code provision	Detail of non-compliance	Potential action to enable compliance with the provision	Highcroft decision
11	At least half the board, excluding the chair, should be independent non-executive directors.	Recruit at least two more independent non-executive directors.	Compliance would outweigh any potential benefits given the small size and lack of complexity of the group.
16	Nomination committee – a majority of the members should be independent non-executive directors (excluding the chairman).	Recruit at least one more independent non-executive director.	Compliance would outweigh any potential benefits given the small size and lack of complexity of the group.
24	Audit committee – the chairman of the board should not be a member.	Recruit at least one more independent non-executive director.	Compliance would outweigh any potential benefits given the small size and lack of complexity of the group.
32	Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	Recruit at least one more independent non-executive director who has the necessary experience to assume the role of chair of the remuneration committee.	The current committee chair has served as secretary to a college remuneration committee for 4 years. Full compliance would outweigh any potential benefits given the small size and lack of complexity of the group. The selection criteria for a future non-executive director will include this point.
36	Remuneration schemes should support long-term shareholdings by executive directors that support alignment with long-term shareholder interests.	Introduce an incentive plan that includes a long-term share-based element and shareholding guidelines.	It is intended to introduce, subject to shareholder approval, an incentive plan that includes a long-term share-based element during 2019.
37	Remuneration schemes and policies should include recover/withhold provisions in certain circumstances.	Include recover/withhold provisions in certain circumstances.	It is intended to include such provisions in the new incentive plan.
41	There should be engagement with the workforce by the remuneration committee.	–	As there is only one employee other than the board it is not believed that such engagement and disclosure thereof would add value to shareholders.

The board will continue to review compliance with the New Code, and with evolving best practice, at least annually.

Board of directors

Charles Butler
Non-executive chairman

Appointment to the board
Charles joined the group as non-executive chairman on 2 January 2018.

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

Other appointments
Charles is a non-executive director and interim chairman at Mysale Group PLC, a leading international online retailer, and Belerion Capital Group Limited, an FCA regulated firm advising high net worth individuals and family offices.

Previous experience/ brings to the board
Charles is a chartered accountant who until recently was the CEO of Market Tech Holdings where he transformed a small group of central London real estate assets into a profitable, listed company with a £1.3bn portfolio. With a successful track record in running public companies, M&A, raising equity and debt for expansion, Charles is well positioned to help the company navigate its next phase of growth.

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
Until 9 November 2018, Simon was the senior bursar of a college of the University of Oxford. He was responsible for overseeing the management of the endowment, and the finance and estates functions, and he served on all the college's core committees and was secretary to the remuneration committee.

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. In these roles, he advised US and UK public and private corporations on finance, operations, and strategy, as well as owning and managing a modest 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.

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.

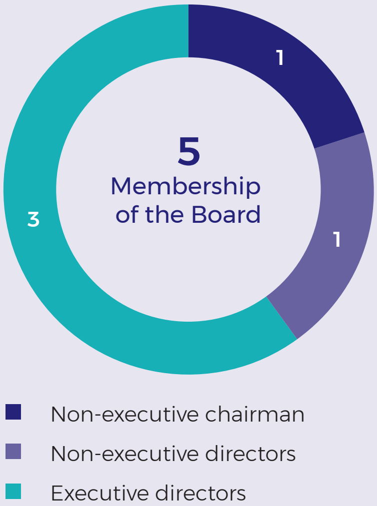
Roberta Miles
Finance director and company secretary

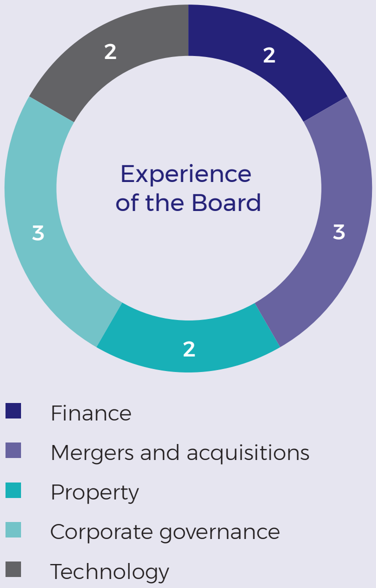
Appointment to the board
Roberta joined the group in April 2010 and was appointed to the board as finance director and company secretary in July 2010.

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 MCD Ventures 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 together with her project management capabilities. The board benefits greatly from the experience of her varied executive roles.





Corporate governance

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 advisors

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

Chairman

The chairman is responsible for the leadership of the board and for ensuring its effectiveness. His role is non-executive. He sets the agenda for meetings and ensures that adequate, accurate and clear information is circulated to the board in a timely manner, and that all matters are discussed properly. He also promotes a culture that encourages constructive open debate on all key issues. Charles Butler held this role with effect from his appointment to the board on 2 January 2018. Charles Butler was considered to be independent upon appointment and is considered, by the board, to have remained independent throughout the year. Simon Costa held the role of acting chairman from 20 September 2017 to 2 January 2018.

Independent non-executive director

The non-executive director is deemed to be independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. He helps 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 his extensive experience and knowledge, he acts as both a sounding board and as objective, constructive challenger to the executive board. Simon Costa is our independent non-executive director.

Senior independent director

Both the 2016 and the New Code recommend 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 comprised of the executive directors and chaired by the chief executive. It is responsible for the implementation of strategy and policies and the day-to-day decision making and administration of the group.

Audit committee

This committee is comprised of the non-executive director and chairman and chaired by Simon Costa. Audit committee meetings are attended, by invitation, by the auditor and 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.

Remuneration committee

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

Nomination committee

This committee is comprised of the non-executive director and chairman and was chaired by Charles Butler with effect from 2 January 2018.

The key roles and responsibilities of the audit, nomination and remuneration committees are set out in the reports on pages 30 to 40.

The terms of reference of these committees are available on the group's website **www.highcroftplc.com**.

Board effectiveness

The board meets at least five 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 subcommittees and conducts an annual evaluation of the board.

During 2018 the number of board and non-executive committee meetings and individual participation was as follows:

	Board	Audit	Remuneration	Nomination
Number of meetings	**5**	**3**	**3**	**1**
Charles Butler	5	3	3	1
Simon Costa	5	3	3	1
Simon Gill	5	N/A	N/A	N/A
David Kingerlee	5	N/A	N/A	N/A
Roberta Miles	5	3 (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 as identified by that plan.

Formal procedures appropriate to the size of the business are in use for performance evaluation of the board and its committees. They include objective-setting and review with the use of an external facilitator on a periodic basis. In 2018 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 accounts and the directors' remuneration report. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution. Full details of the AGM voting 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 42.

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

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

Report of the audit committee

> **"The audit committee monitors the quality and integrity of the financial reporting and the valuation process."**

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

Composition of the committee

The committee consisted of Simon Costa as its chairman throughout the year and Charles Butler from 2 January 2018. The committee meets regularly during the year, in line with the financial reporting timetable, and in 2018 met three times for routine business. 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. In the prior year, 2017, there was one meeting in the period 20 September 2017 to 31 December 2017 when there was only one member of the committee. Once Charles Butler had joined the board as a director and as a member of this committee on 2 January 2018, the business of the 2017 meeting, where there was only one committee member, was ratified.

The board is satisfied that the committee, as a whole, has competencies relevant to the real estate sector and to enable it to carry out its duties effectively. For the purposes of the 2016 Code and the New Code the board is satisfied that both committee members have recent and relevant financial experience.

Principal responsibilities of the committee and its related activities

Financial reporting

The committee is responsible for monitoring the integrity of the group's financial statements and any formal announcements relating to performance. It pays particular attention to those matters that are considered to be important to the group due to their subjectivity, the level of judgement involved or their effect on the financial statements.

In 2018 the key issues relating to our financial statements that were considered are set out below:

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
Valuation of property portfolio	The valuation of our investment property portfolio is inherently subjective as it is undertaken on the basis of assumptions made by valuers which may not prove to be accurate. The outcome of the valuation is significant in terms of our results, future investment decisions and remuneration.	The valuers carry out a valuation every year at 30 June and 31 December. The valuer attends a meeting with the board and the auditor after the year end where the agenda includes: the process adopted by the valuer, data provision by management, comparable market data and assumptions used by the valuer in particular estimated rental values and yields. The audit committee analysed the reports, reviewed the valuation outcomes and challenged assumptions where it believed appropriate. It also noted that the fee arrangement with the valuer was on a fixed fee basis in line with best practice.	The committee was satisfied with the valuation process, the independence and effectiveness of the group's valuer and the valuation disclosures included in the annual report.
Valuation of equity portfolio	The valuation of our equity portfolio requires management judgement in assessing the year-end value and whether or not any impairment is required.	The committee considered the appropriateness of the accounting policy and the processes in place to revalue both the listed equity portfolio and the investments in subsidiaries.	The committee was satisfied that the judgements made were reasonable and in line with disclosures included in the annual report.

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
Revenue recognition	Revenue may be recorded in the incorrect accounting period, or fail to be recorded at all, or fictitous revenues may be recorded.	The committee considered the appropriateness of the controls in place in the revenue cycle, having particular regard to the use of external agents and the controls in place over their work and the internal reconciliations performed and reviewed internally.	The committee concluded that revenue recognition policies and controls were appropriate.
REIT status	The group loses its REIT status.	The committee considered the controls in place to ensure compliance with REIT tests. In particular it reviewed the compliance with the distribution requirement and the impact of forecasted results and trends on this criterion. It also reviewed the opinion received from the tax adviser on this issue.	The committee concluded that the group's REIT status had been maintained during the year.
Going concern basis of preparation	If this basis was inappropriate then there could be material misstatements in the accounts.	The committee reviewed the analysis supporting the going concern basis of preparation. This review included forecast cashflows, loan maturities, headroom on our debt covenants and undrawn debt facilities.	The committee concluded that the going concern method of preparation remained appropriate.
Viability statement	If the statement was incorrect then corrective action might need to be undertaken to ensure the group's viability.	The committee considered whether the period of three years covered by the statement was reasonable. It also considered the reasonableness of the assumptions used, taking into account the market environment and the group's strategy. The committee reviewed the sensitivities identified, considered whether they were the most appropriate and stress tested them.	The committee concluded that the statement had been drawn up on a reasonable basis and agreed with its assessment.

The committee 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 stakeholders to assess the group's position, performance, business model and strategy. The committee ensures that the board presents a balanced and understandable assessment of the company's position and prospects in all interim and other price-sensitive public reports to regulators. The responsibilities of the directors with respect to the financial statements are described on page 43, and that of the auditor on page 47.

External auditor

The audit committee reviews the terms of engagement with the external auditor annually and ensures that the external auditor is independent. It has received and reviewed written disclosures from the auditor regarding independence. Mazars LLP was appointed as auditor to the group in 2017, following a formal competitive tender, and carry out no other services for the group other than a review of the interim statement for which the fee is £1,000. The audit fee is £30,000 plus expenses. The group's audit partner is Stephen Eames who has been in the role since Mazars LLP was appointed. The committee will ensure that a rotation of the audit partner takes place in line with legislation.

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 Mazars LLP 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 and areas of accounting capable of manipulation). The committee is satisfied that the risks identified by the auditors are consistent with those identified internally.

At each audit committee meeting the committee reserves time for a meeting without executive management being present. We discuss matters including: the quality of the information provided to the auditor by the executives, confirmation that the auditor has not been restricted in its 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, effectiveness, independence and remuneration. The committee concluded that, on the basis of this review, the auditor was objective, effective and independent and recommended to the board that a resolution proposing Mazars LLP's reappointment be put to shareholders at the 2019 AGM.

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 committee considered the group's risk appetite and concluded that it remains set at an appropriate level in line with the group's strategy. 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 and board protocols 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 cash flow and capital expenditure reported to the board; quarterly and half year revenue comparisons with forecast; financial controls and procedures; clear protocols for capital expenditure and disposals, including defined levels of authority; an audit committee, which approves audit plans and published financial information and reviews reports from the external auditor arising from the audit and deals with significant control matters raised; regular board meetings to monitor areas of concern; annual review of risks and internal controls; and the annual review of compliance with the UK Corporate Governance Code.

More detail regarding our management of risk within our strategic framework is set out on page 19.

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 and complexity 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 role of the committee is to consider the size, structure and composition of the board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties effectively."

We set out below a summary of the main responsibilities and key activities of the committee during the year.

Composition of the committee

The committee consisted of the chairman Charles Butler (with effect from his appointment to the board on 2 January 2018) and non-executive director Simon Costa. It is chaired by Charles Butler. If this committee is dealing with the successor to the chairmanship it would be chaired by the 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

Succession planning

The committee recognises that succession planning is a key part of its remit and also the importance of creating succession plans so that the board can fulfil the group's long-term strategy.

During the year the committee reviewed its succession plans following the unexpected resignation of the former chairman in 2017 and the subsequent recruitment process which took three months. During this period our senior independent director was able to assume the role of acting chairman and the governance cycle and business was unaffected. All key board and committee decisions were ratified once the new chairman was in post. There is a plan in place to cover the loss or temporary incapacity of any one of the directors and in this regard the finance function has been enhanced in the year with the replacement of the part-time bookkeeper with a part-time management accountant.

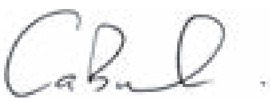
Plans are reviewed regularly in the light of the skills and experience that are required both now and in the medium term, in a dynamic environment, in order for the business to achieve its strategy and objectives.

Tenure

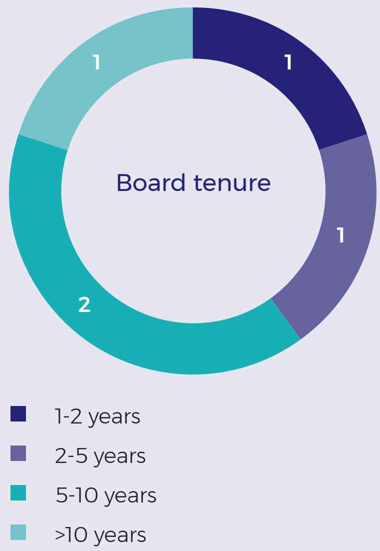
The board considers that the length of time that each director serves on the board should not necessarily be limited, and has not set a finite tenure policy. However, all directors offer themselves for reappointment on an annual basis at the AGM. The board carries out an evaluation exercise each year. The committee decides whether each director continues to make an effective and valuable contribution, demonstrates commitment to their role and that it is in the best interest of the shareholders that the director is re-elected.

Diversity

The company recognises the benefits of all aspects of diversity (not limited to gender, ethnic group, background, age or cognitive and personal strengths). The company maintains a policy of ensuring that, during its review of board composition and during any recruitment process, all aspects of diversity are considered. The company aims to employ the best candidates available in every position on the basis of merit and ability. Given the small size of the organisation the board does not consider that diversity quotas are appropriate in determining its composition.



Charles Butler
Chairman of the nomination committee



Directors' remuneration report

"This year the remuneration committee has made progress developing policies to further improve the alignment of interests between the executive directors and shareholders."

This report describes how the committee has implemented the current remuneration policy during the year and its intentions for 2019 including how, in light of the New Code, the committee has carried out a review of the remuneration policy. As a result of this review and following consultation with major shareholders, the committee has developed a new incentive plan (the Highcroft Incentive Plan) as well as enhanced the detail of other elements of the policy. Resolutions to approve the remuneration policy, this remuneration report, the Highcroft Incentive Plan, and for the executive directors to be issued shares under that plan, will be put to members at the forthcoming AGM, and I hope these will have your support.

Membership of the committee

My fellow member of the committee, Charles Butler, was appointed to the board and to serve on this committee on 2 January 2018. The board considered our independence and concluded that we were both independent. Neither of the committee members had 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 net 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 (annual bonus) for executive directors for 2018. It was agreed that this would continue to take the form of a discretionary cash bonus that was calculated by reference to both group and individual performance during the year.
- Develop a new incentive plan which adds rigour and transparency to the determination of awards whilst also rewarding both the delivery of returns to shareholders and sustained long-term performance in line with the requirements of the New Code.
- Agree to introduce a formal minimum shareholding requirement for the executive directors, to be built up over a period of time.
- Agree to introduce formal recruitment and loss of office policies.
- Review the level of directors' fees for 2019. The directors' salaries were benchmarked against the external market and increases for all directors were proposed and confirmed after the year end.
- Agree to appoint an independent adviser to provide an insight into market practice and to assist with the new incentive plan development, the benchmarking exercise and the development of the 2019 remuneration policy.

Advisers

PwC was appointed in 2019 following the decisions made in 2018. The committee were satisfied that its advice would be objective and independent and agreed the level of their fees which were all to be charged in 2019. More detail on their work will be included in the 2019 annual report.

Remuneration strategy

The committee has noticed that the size and complexity of the group has increased significantly over the last 10 years and that, together with the governance and other legislative requirements, this has added a significant additional workload to the executive team. Whilst remuneration has increased significantly over the same period the committee believe that, with the benefit of the benchmarking exercise that it has carried out, the packages under the new policy will bring the remuneration to a level that is more consistent with the market and with best practice.

It is proposed to alter the remuneration policy with effect from the 2019 AGM by replacing the existing annual bonus with a new incentive plan. The new plan will continue to measure financial and non-financial performance over one-year performance periods, but introduce an element of deferral into shares in order to reward sustained longer-term performance and provide an opportunity for these directors to build a meaningful shareholding in the company. David Kingerlee will only be eligible to participate in the cash element of the plan due to Kingerlee Concert Party restrictions. The remuneration policy will also be revised to include a formal shareholding requirement to maximise alignment between the executive directors and shareholders, as well as formal recruitment and loss of office policies. This revised policy (the 2019 Policy) will be put to the shareholders for approval at the 2019 AGM. All other elements of the policy remain substantially unchanged from those approved at the 2017 AGM (the 2017 Policy) although we have taken the opportunity to enhance the disclosures and provide clear linkages to our strategy.

Remuneration policy

This section sets out the proposed directors' remuneration policy which will apply for three years from the date of the 2019 AGM if approved by shareholders. The current policy, which can be found on the investor information section of our website, has applied since the 2017 AGM when it was unanimously approved by shareholders.

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 for each executive director.

The remuneration packages of all directors are reviewed annually and these are listed in the table below together with an explanation of who they apply to, their purpose, their link to our strategy, the mechanics of the operation of the element and any maximum amounts or performance criteria that apply.

Element	Purpose	Link to strategy	Operation	Maximum	Performance Target
Executive Directors					
Fixed					
Base salary	Competitive remuneration base, benchmarked to the market reflecting role, responsibilities, skills and experience.	To assist with recruitment and retention.	Reviewed at least annually. Paid monthly via payroll.	Not set	N/A
Pension	To provide the legal minimum post-retirement benefits.	To assist with recruitment and retention.	There is an auto-enrolment compliant scheme in place. The group will pay either to this, or another personal pension scheme nominated by the director, at least the minimum legal level of company auto-enrolment contribution. (2% 2018/19, 3% 2019/20). The group may pay a non-pensionable cash sum in lieu of pension contributions.	No maximum set	N/A
Benefits	Provide a competitive level of benefits.	To assist with recruitment and retention.	There is no intention to introduce direct benefit provision for the executive directors at this time. However, the remuneration committee recognises the need to maintain suitable flexibility to ensure it is able to attract and retain directors. Accordingly, the remuneration committee expects to be able to pay a cash allowance in lieu of benefits such as private medical insurance and death in service life assurance as appropriate.	The maximum will be set at the cost of providing the benefits described.	N/A

Directors' remuneration report continued

Element	Purpose	Link to strategy	Operation	Maximum	Performance Target
Executive Directors					
Variable					
The Highcroft Incentive Plan	To incentivise the executive directors to deliver both strong in-year financial and non-financial performance and sustained longer term returns to shareholders.	To assist with recruitment and retention. To align executive director interests with those of shareholders.	Annual awards paid part in cash and part in shares. The aggregate cash elements of awards in any financial year will be capped at 10% of distributions paid to shareholders.		Performance is measured over the financial year. 75% of the award is payable on the achievement of financial targets, with the balance being payable on the achievement of strategic targets. The remuneration committee is of the opinion that, given the commercial sensitivity arising in relation to the detailed financial targets, disclosing precise targets in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any payouts. The remuneration committee retains discretion in exceptional circumstances to change performance metrics and targets and the weightings attached to metrics part-way through a performance year if there is a significant and material event which causes the remuneration committee to believe the original metrics, weightings and targets are no longer appropriate, Discretion may also be exercised in cases where the remuneration committee believes that the formulaic outcome is not a fair and accurate reflection of business performance.
			For executive directors other than David Kingerlee: The cash element of the award shall be the higher of 80% of base salary or 50% of the total award and will be paid out after the end of the financial year to which the award relates Any balance will be paid in the form of deferred shares which vest 50% after three years and 50% after four years subject to the executive director's continued employment at the date of vesting. Malus will apply for the period from grant to vesting, with clawback applying for the two-year period post vesting.	Up to 200% of base salary.	
			For David Kingerlee: David Kingerlee is not eligible to participate in the share element of the plan due to Kingerlee Concert Party restrictions, and so 100% of his award will be paid in cash after the end of the financial year to which the award relates.	Up to 100% of base salary.	
Shareholding requirement	To support long term commitment to the company and the alignment of executive director interests with those of shareholders.	To align the executive director interests with those of shareholders.	The remuneration committee has adopted formal shareholding guidelines that will encourage the executive directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. This requirement will continue until the audited accounts for the year of cessation are finalised and the sale of any shares will then be subject to orderly market provisions.	100% of base salary.	None.
Chairman and non-executive director					
Fees	Competitive remuneration, benchmarked to the market, reflecting role, responsibilities, skills and experience.	To assist with recruitment and retention.	Fees are reviewed annually taking into account: responsibilities, time commitment and benchmark data for organisations of a similar size and complexity. Fees are paid monthly via the payroll and allowable expenses incurred are reimbursed.	None set	N/A

Recruitment policy

The remuneration committee's approach to recruitment remuneration is to apply the same structure as described in the above policy table. On appointment, base salary levels will be set taking into account a range of factors including expected time commitment, market levels, experience, internal relativities and affordability. The maximum annual opportunity under the Highcroft Incentive Plan will be 200% of base salary as set out in the remuneration policy.

The remuneration committee's policy is not to provide sign-on compensation or to provide buy-outs as a matter of course. However, should the remuneration committee determine that the individual circumstances of recruitment justified the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of a director's previous employment will be calculated taking into account the proportion of the performance period completed on the director's cessation of employment, the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied, and any other terms and conditions having a material effect on their value. The remuneration committee may then grant up to the same value as this calculated value, where possible, under the company's incentive plans. To the extent that it was not possible or practical to provide the buy-out within the terms of the company's existing incentive plans, a bespoke arrangement would be used.

Loss of office policy

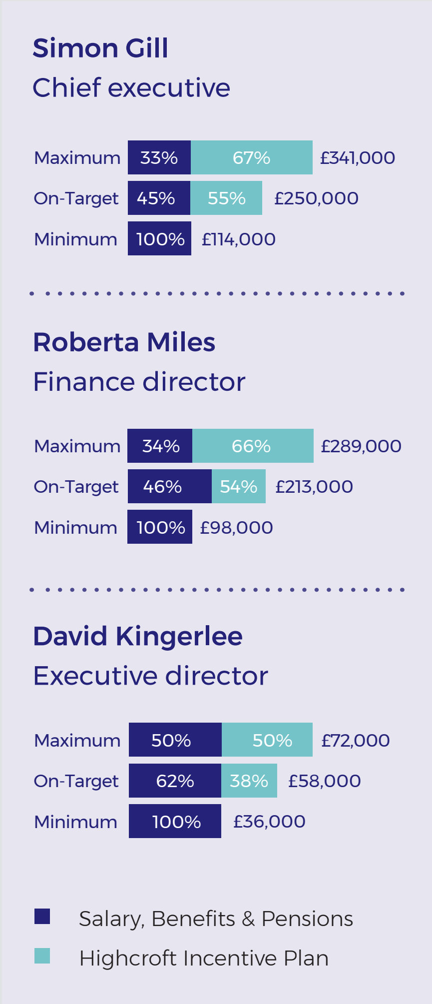
The remuneration committee will honour any contractual arrangements. When determining any loss of office payment for a departing individual, the remuneration committee will always seek to minimise the cost to the company whilst seeking to address the circumstances at the time.

Leaving arrangements under the Highcroft Incentive Plan are defined in the plan rules and vary by leaver type as set out below:

- A 'good leaver' is defined as a participant ceasing to be in employment by reason of death, injury, ill health, disability, redundancy, retirement or otherwise at the remuneration committee's discretion. In these circumstances, unvested incentive awards will vest in full on the usual date but pro-rated for time served and the achievement of performance conditions.
- The remuneration committee may at its discretion bring forward the vesting date for a good leaver, in which case the performance would be assessed at that point.
- All other leavers who cease employment prior to the cash element of the incentive award being paid, or who are under notice of cessation at the time that the cash element of the award is paid, will not be eligible to receive the cash element of the award for that financial year and all deferred shares for such leavers will lapse and any dividends paid on such shares will be clawed back.

Application of policy

The minimum, on-target and maximum salaries and incentive plan payments payable under this policy in 2019 are tabulated below.



Directors' service contracts

Executive directors are given service contracts within which there is a notice period by either party of six months. 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. All directors retire and are subject to election at the first AGM after their appointment. The Board follows the New Code recommendations in that all directors offer themselves for re-election at each AGM.

Consideration of employment conditions elsewhere in the company

There is only one other employee in the company, a part-time management accountant, whose salary is decided by benchmarking to the market, her skills, experience and contribution. The directors did not consult with this employee in setting the directors' remuneration policy as it was not considered beneficial to do so.

Consideration of shareholder views

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

The law requires the group's auditor, Mazars 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 44 to 47.

Directors' remuneration report continued

Directors' contracts

A summary of the contracts of the directors in office at the end of the year is set out below:

Non-executive directors	Date of appointment as director	Effective date of current appointment letter	Expiry of term
Charles Butler	2 January 2018	2 January 2018	1 January 2021
Simon Costa	15 May 2015	15 May 2018	14 May 2021

Executive directors	Date of appointment as director	Date of contract	Notice period
Simon Gill	1 April 2013	7 December 2017	Six months
David Kingerlee	12 September 1996	7 December 2017	Six months
Roberta Miles	1 July 2010	7 December 2017	Six months

Annual remuneration report

Relative importance of spend on pay

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

	2018 £'000	2017 £'000	2016 £'000
Directors' remuneration	**483**	440	404
Distributions paid to shareholders	**2,519**	2,183	2,041
Directors' remuneration as a percentage of distributions paid to shareholders	**19.2%**	20.2%	19.8%

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

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Base salary										
Simon Gill	**108**	98	95	70	51	21	–	–	–	–
Jonathan Kingerlee	**–**	–	–	–	–	20	35	35	34	34
	108	98	95	70	51	41	35	35	34	34
Percentage change in base salary element of remuneration of CEO	**10%**	3%	36%	37%	24%	17%	0%	3%	0%	(8%)
Discretionary bonus										
Simon Gill	**101**	94	87	82	60	–	–	–	–	–
Jonathan Kingerlee	**–**	–	–	–	–	–	–	–	–	–
	101	94	87	82	60	–	–	–	–	–
Percentage change in discretionary bonus element of remuneration of CEO	**7%**	8%	6%	37%	n/a	–	–	–	–	–
Actual bonus as a proportion of total potential bonus	**77%**	82%	80%	75%	59%	–	–	–	–	–
Total										
Simon Gill	**209**	192	182	152	111	21	–	–	–	–
Jonathan Kingerlee	**–**	–	–	–	–	20	35	35	34	34
	209	192	182	152	111	41	35	35	34	34
Percentage change in total remuneration of CEO	**9%**	5%	20%	37%	171%	17%	0%	3%	0%	(8%)

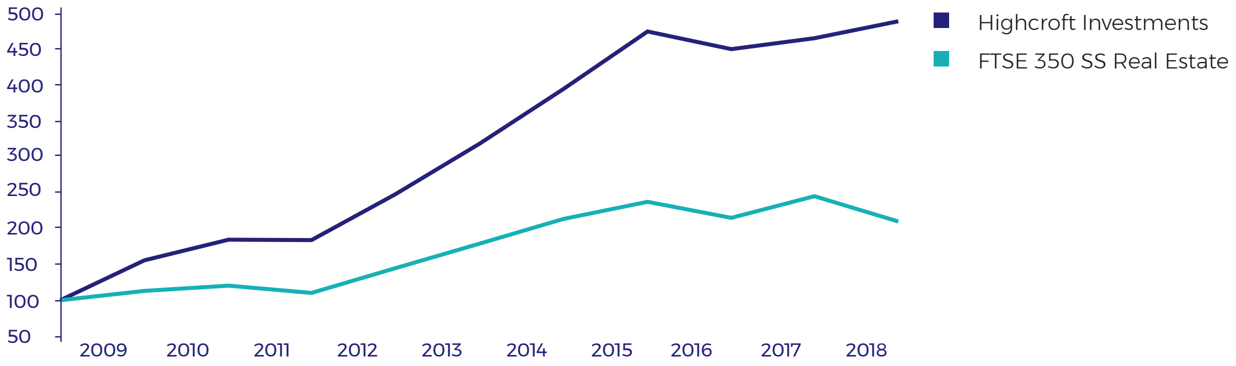
Company performance

The board is responsible for the group's performance.

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

Total Shareholder Return performance graph

As at 31 December 2018



Source: Thomson Reuters

Statement of implementation of remuneration policy in the next financial year

As outlined above the board intends to ask shareholders to approve the new 2019 remuneration policy at the 2019 AGM in order to ensure greater alignment with the principles of the New Code. The board does not intend to make any significant changes to remuneration policy during 2019 subsequent to the AGM's approval. A summary of how the proposed policy will be applied in 2019 is set out below:

Salaries

As previously noted the committee undertook a benchmarking exercise performed by external remuneration advisors which reviewed the salaries of the executive directors against wider market practice. The following salaries will apply from 1 January 2019.

Simon Gill	£113,500	Charles Butler	£40,000
Roberta Miles	£93,500	Simon Costa	£30,000 with a minimum uplift to £35,000 in 2020
David Kingerlee	£36,000		

Highcroft Incentive Plan

The maximum opportunity under the new Highcroft Incentive Plan will be 200% of salary for the chief executive and finance director and 100% of salary for the executive director. For 2019 the awards will be based on four performance measures:

NAV per share growth:	30% weighting
EPS growth:	30% weighting
Gross rent growth:	15% weighting
Strategic metrics:	25% weighting

Performance targets for 2019 are not disclosed here on the grounds of commercial sensitivity; they will be disclosed in the 2019 directors' remuneration report.

Directors' remuneration (audited)

	2018				2017			
	Base salary £	**Pension £**	**Discretionary bonus £**	**Total £**	Base salary £	Pension £	Discretionary bonus £	Total £
Charles Butler*	**30,000**	**–**	**–**	**30,000**	–	–	–	–
Simon Costa	**25,000**	**–**	**–**	**25,000**	24,000	–	–	24,000
Simon Gill	**108,000**	**–**	**101,000**	**209,000**	97,500	–	94,000	191,500
David Kingerlee	**35,000**	**–**	**34,500**	**69,500**	35,000	–	32,000	67,000
Roberta Miles	**90,000**	**1,800**	**58,000**	**149,800**	80,000	800	54,000	134,800
John Hewitt†	**–**	**–**	**–**	**–**	22,500	–	–	22,500
	288,000	**1,800**	**193,500**	**483,300**	259,000	800	180,000	439,800

* Appointed 2 January 2018
† Resigned 20 September 2017

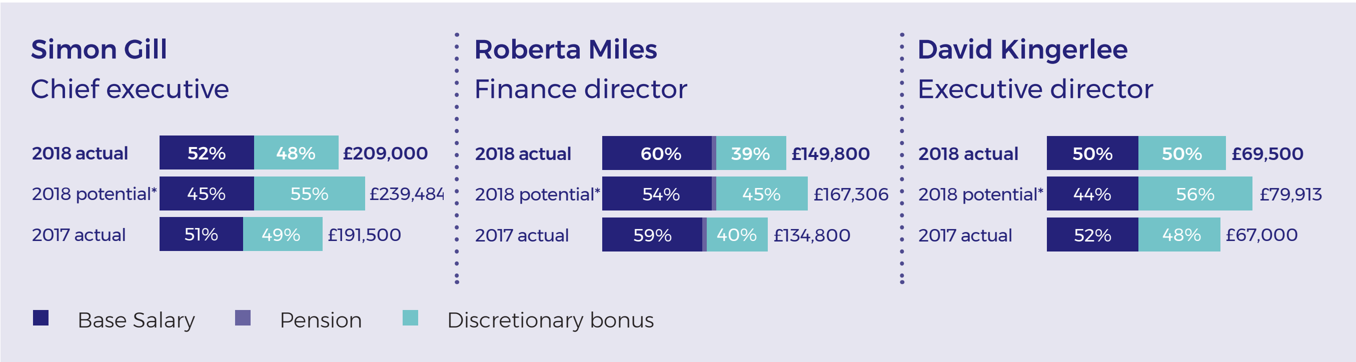
Two of the three eligible directors opted out of receiving pension contributions in 2018.

Directors' remuneration report continued

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. In particular, the remuneration committee considered the annual movements in: net asset value per share, rental income, the change in the 'All Property' and the 'Retail' IPD indices. The total discretionary bonus of £193,000 (2017 £180,000) represents 7.7% (2017 8.24%) of distributions paid to shareholders in 2018. No payments have been made to past directors and no payments were made for loss of office during 2018 or 2017.

Executive directors' remuneration

The charts below show the 2018 actual remuneration against the potential opportunity for the year and the 2017 remuneration for each executive director. Full disclosure of the single total figure for remuneration is set out above.



* 2018 potential assumes that maximum distribution of 10% of distributions paid to shareholders in the year was paid out in the same ratio as the actual bonuses paid.

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

The interests of the directors, and their connected persons, in the shares of the company at 31 December 2018 were as follows:

Charles Butler	–
Simon Costa	–
Simon Gill	–
David Kingerlee	1,535,803
Roberta Miles	5,950

The interests of David Kingerlee set out above include the interests of his connected persons who include certain member of the Kingerlee Concert Party as described on page 42. David Kingerlee's personal beneficial holding at 31 December 2018 was 89,470 (2017 89,470).

There have been no changes in the holdings between 1 January 2019 and 21 March 2019.

Statement of shareholder voting

At the AGM in 2018 the resolution to approve the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	3,120,958	100%
Votes cast against	–	–
Total votes cast	3,120,958	100%
Votes withheld	7,500	–

Approved by the board of directors and signed by

Simon Costa
Chairman of the remuneration committee
21 March 2019

Report of the directors

The corporate governance report on pages 24 to 43 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 2018.

The principal activity of the group continues to be property investment. The group also invests in equities but this portfolio is gradually being reduced and is no longer a significant part of the business.

Directors

The directors, who served throughout the year, unless stated otherwise, are listed below:

Charles Butler	Non-executive chairman (appointed 2 January 2018)
Simon Costa	Senior independent non-executive director and acting chairman 20 September 2017 to 2 January 2018
Simon Gill	Chief executive
David Kingerlee	Executive director
Roberta Miles	Finance director

The board recognises the requirement of the 2016 UK Corporate Governance Code and the New Code regarding the segregation of roles and division of responsibilities between the chairman and chief executive and between the leadership of the board and the executive leadership of the business and has complied with these requirements during the year.

The interests of the directors in the shares of the company are included in the remuneration report on page 40.

In accordance with the New Code, all directors will retire and offer themselves for re-election at the forthcoming AGM on 16 May 2019.

The board confirms that, following performance evaluations and review by the nomination committee, the performance of each director continues to be effective and that they demonstrate commitment to their role. The board believes that it is in the best interest of shareholders that these directors be re-elected.

Directors' indemnification and insurance

The company's articles of association provide for the directors' and officers of the company to be appropriately indemnified, subject to the provisions of the Companies Act 2006. The company purchases and maintains insurance for the directors and officers of the company in performing their duties, as permitted by section 233 Companies Act 2006.

Financial instruments

The group's exposure to, and management of, capital risk, market risk and liquidity risk is in note 18 to the consolidated financial statements.

Structure of share capital and rights and obligations attaching to shares

The company's allotted and issued share capital as at 31 December 2018 was £1,291,810 (2017 £1,291,810) divided into 5,167,240 (2017 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 her, 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.

Report of the directors continued

Substantial shareholders

As at 31 December 2018 the following notifications of interests in 3% or more of the company's ordinary share capital in issue had been received:

	% of issued share capital		Number of shares	
D G & M B Conn and associates		21.95%		1,134,105
Controlling shareholder – Kingerlee Concert Party comprising				
– 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 – Kingerlee Holdings Limited	27.25%		1,407,443	
– other associates	14.64%		757,023	
Total – Kingerlee Concert Party		41.89%		2,164,466

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 21 March 2019, held 2,164,466 ordinary shares, representing 41.89% 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 2018 until 31 December 2018 (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
- 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 or chairman should be approved by an ordinary resolution of the shareholders and separately approved by those shareholders who are not controlling shareholders, the independent shareholders.

Greenhouse gas emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the company is required to report annual greenhouse gas emissions. The directors have considered this obligation and taken into account the following factors:

- the group operates from a serviced office within a larger building and has no direct responsibility for energy usage
- the annual energy cost for the limited shared commercial areas within the property portfolio are less than £15,000pa
- the car fuel used by the group and its advisers is considered de minimis.

On this basis the directors do not consider that it is practicable or valuable to report any detailed data on greenhouse gas emissions.

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

Mazars LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming AGM.

Post balance sheet events

There were no post balance sheet events requiring disclosure.

This report was approved by the board

Roberta Miles
Finance director
21 March 2019

Statement of directors' responsibilities

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

The directors are responsible for preparing the annual report, remuneration report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable IFRSs and UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditor is unaware
- the directors have taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of this information.

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

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

Responsibility statement of directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union for the group and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) for the parent company, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the report and accounts, taken as a whole, are fair, balanced, and understandable and provide the necessary information for shareholders to assess the group's performance, business model and strategy.

On behalf of the board

Charles Butler
Chairman
21 March 2019

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

Opinion

We have audited the financial statements of Highcroft Investments PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the consolidated financial statements, the company statement of financial position, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent company financial statements is United Kingdom Accounting Standards, including FRS102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'(United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards (united Kingdom Generally Accepted Accounting Practice), including FRS102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' and as applied in accordance with the provisions of the Companies Act 2006; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

The Directors' view on the impact of Brexit is disclosed on page 22.

The terms on which the United Kingdom may withdraw from the European Union, currently due to occur on 29 March 2019, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Group's and Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Group and Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Group's and company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 20 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 19 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 directors' statement set out on page 22 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in repairing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 22 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter in forming our audit opinion above, together with our principal audit procedures to address this matter and, where relevant, key observations arising from those procedures.

This matter together with our findings was communicated to those charged with governance though our Audit Completion Report.

Investment property valuation

The group has a significant portfolio of investment properties which is measured in accordance with IAS 40

'Investment property'. Investment properties make up 92% of total assets by value and are considered to be the key driver for the group and involves significant level of judgements in ascertaining the value under IFRS 13. As a result, valuation of Investment properties is considered to be a key audit matter as it had the greatest effect on our overall audit strategy and allocation of resources.

Our audit work included but was not restricted to:

- Assessing the work completed by the third party property valuers, including whether the valuers have the appropriate expertise and whether the valuation has been completed using a fair value methodology suitable for audit
- Assessing the reasonableness of previous assumptions made by the valuers, by checking to actual disposal sale prices in the year
- Reviewing the key assumptions made and appraising these against available market data such as forecasts for market yield, market growth and return on investment percentages
- Comparing the property valuations to publicly available recent comparable property transactions
- Testing on a sample basis additions and disposals of properties throughout the year back to supporting documentation (completion statements)
- Review the adequacy of the disclosure in the financial statements, including the valuation methodology, assumptions and fair value hierarchy used.

Based on the work performed and evidence obtained, we consider the methodology and assumptions used to value the Investment properties to be appropriate.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£841,000
How we determined it	This has been calculated with reference to the group's total assets, of which it represents approximately 1%.
Rationale for benchmark applied	Total assets have been identified as the principal benchmark within the financial statements as it is considered to be the focus of the shareholders. 1% has been chosen to reflect the level of understanding of the stakeholders of the group in relation to the inherent uncertainties around accounting estimates and judgements.
Performance materiality	On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was £589,000 which is approximately 70% of overall group materiality.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £25,000 as well as any misstatements below that amount that, in our opinion, warranted reporting for qualitative reasons.

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.

For each component in the scope of the group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £79,000 and £716,000. The parent company materiality was set at £546,000. For all components across the group performance materiality was set at 70%.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the group and parent company, the structure of the group and the parent company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, Listing Rules and UK Corporate Governance Code. We tailored the scope of our group audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the parent company and group's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Independent auditors' report continued
to the members of Highcroft Investments PLC

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Our group audit scope included an audit of the group and parent financial statements of Highcroft Investments PLC. Based on our risk assessment, all entities within the group were subject to full scope audit and was performed by the group audit team. At the parent level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 43 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** set out on page 30 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 24 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In 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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Audit Committee on 17 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ending 31 December 2017 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of the audit report

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.

Stephen Eames
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and
Statutory Auditor

The Pinnacle, 160 Midsummer Boulevard,
Milton Keynes, MK9 1FF

21 March 2019

Consolidated statement of comprehensive income
for the year ended 31 December 2018

		2018			2017		
	Note	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		**5,043**	**–**	**5,043**	4,765	–	4,765
Property operating expenses	8	**(184)**	**–**	**(184)**	(259)	–	(259)
Net rental income		**4,859**	**–**	**4,859**	4,506	–	4,506
Net gains on investment property disposals		**967**	**–**	**967**	1	–	1
Valuation gains on investment property		**–**	**2,600**	**2,600**	–	3,365	3,365
Valuation losses on investment property		**–**	**(2,116)**	**(2,116)**	–	(77)	(77)
Net valuation gains on investment property	8	**–**	**484**	**484**	–	3,288	3,288
Dividend revenue		**54**	**–**	**54**	92	–	92
Gains on equity investments	9	**–**	**48**	**48**	–	230	230
Losses on equity investments	9	**–**	**(166)**	**(166)**	–	(91)	(91)
Net investment income		**54**	**(118)**	**(64)**	92	139	231
Administration expenses	3	**(736)**	**–**	**(736)**	(663)	–	(663)
Net operating profit before net finance expense		**5,144**	**366**	**5,510**	3,936	3,427	7,363
Finance income		**6**	**–**	**6**	2	–	2
Finance expense		**(705)**	**–**	**(705)**	(651)	–	(651)
Net finance expense		**(699)**	**–**	**(699)**	(649)	–	(649)
Profit before tax		**4,445**	**366**	**4,811**	3,287	3,427	6,714
Income tax credit/(charge)	5	**67**	**48**	**115**	61	60	121
Profit for the year after tax		**4,512**	**414**	**4,926**	3,348	3,487	6,835
Total profit and comprehensive income for the year attributable to the owners of the parent		**4,512**	**414**	**4,926**	3,348	3,487	6,835
Basic and diluted earnings per share	7			**95.3p**			132.3p

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

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

Consolidated statement of financial position
at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investment property	8	**77,700**	76,315
Equity investments at fair value through profit or loss	9	**679**	2,131
Total non-current assets		**78,379**	78,446
Current assets			
Investment property	8	**–**	798
Trade and other receivables	10	**471**	537
Cash and cash equivalents		**5,202**	1,904
Total current assets		**5,673**	3,239
Total assets		**84,052**	81,685
Liabilities			
Current liabilities			
Trade and other payables	11	**2,235**	2,054
Total current liabilities		**2,235**	2,054
Non-current liabilities			
Interest bearing loans	12	**19,400**	19,400
Deferred tax liabilities	13	**33**	254
Total non-current liabilities		**19,433**	19,654
Total liabilities		**21,668**	21,708
Net assets		**62,384**	59,977
Equity			
Issued share capital	14	**1,292**	1,292
Revaluation reserve – property		**18,770**	18,015
– other		**574**	538
Capital redemption reserve		**95**	95
Realised capital reserve		**28,378**	26,611
Retained earnings		**13,275**	13,426
Total equity attributable to the owners of the parent		**62,384**	59,977

These financial statements were approved by the board of directors on 21 March 2019.

Simon Gill
Director

Charles Butler
Director

Company number – 00224271

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

Consolidated statement of changes in equity

2018	**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 2018	1,292	18,015	538	95	26,611	13,426	59,977
Transactions with owners:							
Dividends	–	–	–	–	–	(2,519)	(2,519)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains/(losses)	–	484	(121)	–	–	(363)	–
Tax on revaluation gains	–	–	48	–	–	(48)	–
Realised gains/(losses)	–	–	–	–	969	(969)	–
Movement in deferred tax on realisation of equities	–	–	1,161	–	(1,161)	–	–
Surplus attributable to assets sold in the year	–	(907)	(1,052)	–	1,959	–	–
Excess of cost over revalued amount taken to retained earnings	–	1,178	–	–	–	(1,178)	–
	–	755	36	–	1,767	(2,558)	–
Total comprehensive income for the year	–	–	–	–	–	4,926	4,926
At 31 December 2018	**1,292**	**18,770**	**574**	**95**	**28,378**	**13,275**	**62,384**

2017	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 2017	1,292	14,276	659	95	27,020	11,983	55,325
Transactions with owners:							
Dividends	–	–	–	–	–	(2,183)	(2,183)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	–	3,288	124	–	–	(3,412)	–
Tax on revaluation gains	–	–	64	–	–	(64)	–
Realised gains	–	–	–	–	16	(16)	–
(Surplus)/loss attributable to assets sold in the year	–	734	(309)	–	(425)	–	–
Excess of cost over revalued amount taken to retained earnings	–	(283)	–	–	–	283	–
	–	3,739	(121)	–	(409)	(3,209)	–
Total comprehensive income for the year	–	–	–	–	–	6,835	6,835
At 31 December 2017	1,292	18,015	538	95	26,611	13,426	59,977

Consolidated statement of cashflows
for the year ended 31 December 2018

		2018 £'000	2017 £'000
Operating activities			
Profit before tax on ordinary activities		**4,811**	6,714
Adjustments for:			
Net valuation gains on investment property		**(484)**	(3,288)
Net gain on disposal of investment property		**(967)**	(1)
Net gain/(loss) on investments		**118**	(139)
Finance income		**(6)**	(2)
Finance expense		**705**	651
Operating cashflow before changes in working capital and provisions		**4,177**	3,935
Decrease in trade and other receivables		**66**	94
Increase in trade and other payables		**89**	196
Cash generated from operations		**4,332**	4,225
Finance income		**6**	2
Finance expense		**(705)**	(651)
Income taxes paid		**(13)**	(8)
Net cashflows from operating activities		**3,620**	3,568
Investing activities			
Purchase of non-current assets	– investment property	**(5,226)**	(10,086)
	– equity investments	**–**	–
Sale of non-current assets	– investment property	**6,090**	2,259
	– equity investments	**1,333**	477
Net cashflows from investing activities		**2,197**	(7,350)
Financing activities			
Dividends paid		**(2,519)**	(2,183)
New bank borrowings		**–**	4,500
Net cashflows from financing activities		**(2,519)**	2,317
Net increase/(decrease) in cash and cash equivalents		**3,298**	(1,465)
Cash and cash equivalents at 1 January		**1,904**	3,369
Cash and cash equivalents at 31 December		**5,202**	1,904

Notes to the consolidated financial statements
for the year ended 31 December 2018

1 Significant accounting policies

Highcroft Investments PLC is a company domiciled in England and Wales. The consolidated financial statements of the company for the year ended 31 December 2018 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. Estimates and judgements are continually evaluated and are based on historical information of the group, the best judgement of the directors, and are adjusted for current market conditions. In the process of applying the group's accounting policies, management is of the opinion that any instances of the application of judgements did not have a significant effect on the amounts recognised in the financial statements.

New accounting standards and interpretations

The group's approach to new accounting standards and interpretations issued during the year is set out below.

IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers were effective 1 January 2018 and have not resulted in any changes in the financial statements.

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 16 Leases (effective 1 January 2019). As the group only has one licence in place, which is determinable on three months' notice, the impact of this IFRS will be disclosure only.

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 2018, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue as a lessor

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

1 Significant accounting policies continued

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 or loss for the periods presented comprises current and deferred tax, except where it relates to items charged directly to equity, in which case the related deferred tax is also charged or credited to equity. Income tax is recognised in the income statement. As a REIT, tax is not payable on the income and gains generated in the tax exempt property business.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of equity investments, using tax rates enacted or substantially enacted at the date of the statement of financial position.

Investment property

Investment property is that which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value. An external independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the properties every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In accordance with IAS 40, a property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Acquisitions and disposals are recognised on the date of completion. Any unrealised gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

Equity investments

The directors have designated the group's qualifying financial assets at fair value through profit and loss on the basis that to do so is in accordance with its documented investment strategy. Over 98.6% 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 considers the payment history of the tenant and takes into account the most recent credit rating of the tenant.

Cash and cash equivalents

Cash and cash equivalents comprise cash available with an original maturity of less than three months.

Financial liabilities

The group's financial liabilities include trade and other payables and borrowings.

Trade payables and borrowings are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate (EIR) method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Loans and borrowings are classified as current liabilities unless the group has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

1 Significant accounting policies continued

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 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.

Retained earnings

Retained earnings include total comprehensive income less revaluation gains on properties and equities and any applicable taxation less dividends paid.

Segment reporting

The group has one main operating segment; commercial property. As described in the 2017 annual report the group had included financial assets as a second operating segment. However, as these assets have been, and continue to be, reduced in line with stated strategy it was decided that the group should operate with only one business segment with effect from 1 January 2018. Segmental assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. A segment is a distinguishable component of the group whose operating results are regularly reviewed by the group's chief operating decision maker, who is the chief executive officer. For management purposes, the group uses the same measurement policies as those used in its financial statements.

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.

For 2018 the group is comprised of one main operating segment: commercial property. In 2017 the group had a second operating segment: financial assets comprising exchange-traded equity investments. All amounts are attributable to England and Wales.

		2017		
	2018 Total £'000	Property £'000	Financial assets £'000	Total £'000
Gross income (gross rental revenue plus dividend revenue)	**5,097**	4,765	92	4,857
Profit for the year	**4,926**	6,497	338	6,835
Capital expenditure	**5,226**	10,086	–	10,086
Assets	**84,052**	79,527	2,158	81,685
Liabilities	**21,668**	21,054	654	21,708

In 2018 no tenant represented more than 10.1% of gross rental income (2017 8.3%).

3 Administrative expenses

	2018 £'000	2017 £'000
Directors (note 4)	**540**	492
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**31**	30
Fees payable to the company's auditor for other services	**1**	1
Other expenses	**164**	140
	736	663

4 Directors

	2018 £'000	2017 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**481**	439
Pension costs	**2**	1
Social security costs	**57**	52
	540	492

The average number of employees was six (2017 six) all of whom, other than a management accountant, 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

	2018 £'000	2017 £'000
Current tax:		
On revenue profits	**67**	61
On capital profits	**–**	(3)
	67	58
Deferred tax (note 13)	**48**	63
Income tax credit	**115**	121

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 19%).

The differences are explained as follows:

	2018 £'000	2017 £'000
Profit before tax	**4,811**	6,714
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017 19%)	**914**	1,276
Effect of:		
Tax exempt revenues	**13**	(40)
Profit not taxable as a result of REIT status	**(1,199)**	(1,481)
Chargeable gains more than accounting profit	**172**	55
Use of management expenses	**20**	82
Change in deferred tax liability	**(48)**	(13)
Adjustment in respect of previous years	**13**	–
Income tax credit	**(115)**	(121)

6 Dividends

In 2018 the following dividends have been paid by the company:

	2018 £'000	2017 £'000
2017 Final: 30.0p per ordinary share (2016 26.0p)	**1,550**	1,343
2018 Interim: 18.75p per ordinary share (2017 16.25p)	**969**	840
	2,519	2,183

On 21 March 2019 the directors declared a property income distribution of £1,744,000, 33.75p per share (2017 £1,550,000, 30.0p per share) payable on 31 May 2019 to shareholders registered at 3 May 2019.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

7 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £4,926,000 (2017 £6,835,000) and on 5,167,240 shares (2017 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2018 and throughout the period since 1 January 2017. There are no dilutive instruments.

In order to draw attention to the profit which is not due 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 £4,512,000 (2017 £3,348,000) has been calculated.

	2018 £'000	2017 £'000
Earnings:		
Basic profit for the year	4,926	6,835
Adjustments for:		
Net valuation gains on investment property	(484)	(3,288)
Losses/(gains) on investments	118	(139)
Income tax on profit	(48)	(60)
Adjusted earnings	4,512	3,348
Per share amount:		
Earnings per share (unadjusted)	95.3p	132.3p
Adjustments for:		
Net valuation gains on investment property	(9.4p)	(63.6p)
Losses/(gains) on investments	2.3p	(2.7p)
Income tax on profits	(0.9p)	(1.2p)
Adjusted earnings per share	87.3p	64.8p

8 Investment property

	2018 £'000	2017 £'000
Total valuation at 1 January	77,113	65,997
Additions	5,226	10,086
Disposals	(5,123)	(2,258)
Revaluation gains	484	3,288
Valuation at 31 December	77,700	77,113
Less property categorised as current asset	–	(798)
Property categorised as fixed asset	77,700	76,315

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 2018, 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 at fair value categorised with level 2 inputs (see note 18).

The historical cost of the group's investment properties is £64,935,000 (2017 £63,957,000).

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. Significant increases or decreases in estimated rental value and rent growth per annum in isolation would result in a significantly higher or lower fair value of the properties. Significant increases or decreases in the long-term vacancy rate and discount rate in isolation would result in a significantly lower or higher fair value. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate and an opposite change in the long-term vacancy rate.

In addition, nine investment properties with a carrying amount of £41,600,000 (2017 nine properties with a valuation of £41,890,000) are charged to Handelsbanken plc to secure the group's medium-term loans.

8 Investment property continued

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

	2018 £'000	2017 £'000
Less than one year	**4,500**	4,884
Between one and five years	**13,943**	14,282
More than five years	**13,979**	16,431
	32,422	35,597

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

9 Equity investments

	2018 £'000	2017 £'000
Valuation at 1 January	**2,131**	2,469
Disposals	**(1,331)**	(459)
(Loss)/surplus on revaluation in excess of cost	**(121)**	124
Revaluation decrease below cost	**–**	(3)
Valuation at 31 December	**679**	2,131

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

	2018 £'000	2017 £'000
Realised gains on equity investments	**35**	19
Revaluation gains on equity investments	**13**	211
	48	230
Realised losses on equity investments	**32**	1
Revaluation losses on equity investments	**134**	90
	166	91

10 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	**103**	–
Accrued rent receivable	**358**	487
Other receivables	**10**	50
	471	537

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 2018 amounts due from tenants which were more than 90 days overdue (i.e. one rental quarter), which related to rents for 2018 or earlier, totalled £nil (2017 £nil).

11 Trade and other payables

	2018 £'000	2017 £'000
Deferred income	**1,002**	1,060
Social security and other taxes	**509**	469
Other payables	**724**	525
	2,235	2,054

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

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

12 Interest-bearing loans

	2018 £'000	2017 £'000
Medium-term bank loans	**19,400**	19,400
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	**4,000**	–
Between two and five years	**7,500**	4,000
Over five years	**7,900**	15,400
	19,400	19,400

The average effective interest rate is 3.64% (2017 3.64%).

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 19% (2017 19%).

	2018 £'000	2017 £'000
At 1 January	**254**	375
Realised in the year	**(173)**	(57)
Released in the year	**(48)**	(64)
At 31 December	**33**	254

14 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid 5,167,240 (2017 5,167,240) ordinary shares of 25p each	**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 £19,400,000 of medium-term debt at 31 December 2018 (2017 £19,400,000). 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 property 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 2018 or at 31 December 2017.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2018 or 31 December 2017.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2017 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:

	2018 £'000	2017 £'000
Transactions by the company:		
Property income distribution paid to related party	**686**	595
Licence fee for use of property and recharge of sundry costs paid to related party	**14**	14

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 66 of this annual report.

Charles Butler is a director of both the company and Belerion Capital Group Limited. During the year the company was charged £258 by Belerion Capital Group Limited for meeting room hire of which £124 was outstanding at the year end.

17 Related party transactions continued

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

	2018 £'000	2017 £'000
David Kingerlee	**44**	38
Roberta Miles	**3**	2
John Hewitt (resigned 20 September 2017)	**–**	7

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 (2017 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.

	2018			2017		
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**	**346**	**350**	4	496	500
Opening unrealised gain	**5**	**1,776**	**1,781**	5	1,964	1,969
Opening fair value at 1 January	**9**	**2,122**	**2,131**	9	2,460	2,469
Disposal proceeds	**–**	**(1,334)**	**(1,334)**	–	(477)	(477)
Net profit realised on disposal	**–**	**3**	**3**	–	18	18
Change in fair value in the year on assets held at 31 December	**–**	**(121)**	**(121)**	–	121	121
Closing fair value at 31 December	**9**	**670**	**679**	9	2,122	2,131
Closing cost	**4**	**67**	**71**	4	346	350
Closing unrealised gain	**5**	**603**	**608**	5	1,776	1,781
At 31 December	**9**	**670**	**679**	9	2,122	2,131

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

18 Financial instruments and financial risk continued

Categories of financial instruments	2018 Carrying amount £'000	2018 Gains/(losses) £'000	2017 Carrying amount £'000	2017 Gains/(losses) £'000
Financial assets designated at fair value through profit and loss:				
Equity investments	**679**	**(121)**	2,131	121
Financial assets measured at amortised cost:				
Trade and other receivables	**471**	**–**	537	–
Cash and cash equivalents	**5,202**	**–**	1,904	–
	5,673	**–**	2,441	–
Financial liabilities measured at amortised cost:				
Interest-bearing loans	**19,400**	**–**	19,400	–
Trade and other payables	**724**	**–**	525	–
	20,124	**–**	19,925	–

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 2018 the group had £19,400,000 (2017 £19,400,000) of medium-term borrowing of which £4,000,000 is repayable in 2020, £7,500,000 in 2022, £3,400,000 in 2026 and £4,500,000 in 2027 at fixed interest rates averaging 3.64% (2017 3.64%). The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values. A maturity analysis is set out below:

2018	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within one year £'000	Due in more than 1 but less than 2 years £'000	Due in more than 2 but less than 5 years £'000	Due in more than 5 years £'000
Medium-term bank loans	**19,400**	**22,577**	**706**	**4,644**	**8,603**	**8,624**
Trade and other payables	**724**	**724**	**724**	**–**	**–**	**–**

2017	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within one year £'000	Due in more than 1 but less than 2 years £'000	Due in more than 2 but less than 5 years £'000	Due in more than 5 years £'000
Medium-term bank loans	19,400	23,283	706	706	13,013	8,858
Trade and other payables	525	525	525	–	–	–

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. If the equity market had been 2% higher (or lower) at the year-end then the profit for the year would have been £13,000 higher (or lower) and the total equity would have been increased (or decreased) by £13,000.

18 Financial instruments and financial risk continued

Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for credit losses, estimated by the directors. The allowance as at 31 December 2018 was £nil (2017 £nil). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2018 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 Handelsbanken plc. 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 may be 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 64.0% (2017 47.9%) of the equity investment portfolio comprises overseas holdings. The inherent currency risk affecting those holdings is an indistinguishable factor in determining their market value and is taken into consideration as part of the overall assessment of investment risk.

Borrowing facilities

The group has no undrawn committed borrowing facilities.

19 Changes in liabilities arising from financing activities

	Bank loans (note 12) 2018 £'000
At 1 January 2018	**19,400**
New loans	**–**
Interest charged	**705**
Interest paid	**(705)**
At 31 December 2018	**19,400**

20 Net assets per share

	2018	2017
Net assets	**£62,384,000**	£59,977,000
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**1207p**	1161p

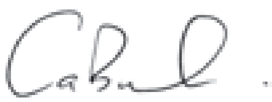
Company statement of financial position
at 31 December 2018

		2018		2017	
	Note	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Investments	5		**57,036**		57,372
Current assets					
Debtors	6	**5,921**		3,235	
Cash at bank		**29**		22	
		5,950		3,257	
Creditors – amounts falling due within one year	7	**569**		398	
Net current assets			**5,381**		2,859
Total assets less current liabilities			**62,417**		60,231
Provision for liabilities	8		**33**		254
Net assets			**62,384**		59,977
Capital and reserves					
Called up share capital	9		**1,292**		1,292
Reserves					
– Realised capital		**8,118**		7,662	
– Capital redemption		**95**		95	
– Revaluation		**46,661**		46,121	
– Retained earnings		**6,218**		4,807	
			61,092		58,685
Shareholders' funds			**62,384**		59,977

The profit and total comprehensive income for the period was £4,926,000 (2017 £6,835,000).

These financial statements were approved by the board of directors on 21 March 2019.

Simon Gill
Director



Charles Butler
Director

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 2018

	Note	Share capital £'000	Realised capital reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018		1,292	7,662	95	46,121	4,807	59,977
Profit for the year	2	–	–	–	–	3,812	3,812
Other comprehensive income for the year	2	–	–	–	–	1,114	1,114
Dividends paid		–	–	–	–	(2,519)	(2,519)
Revaluation loss on equities		–	–	–	(121)	121	–
Revaluation gain of subsidiaries		–	–	–	1,114	(1,114)	–
Realised gains		–	3	–	–	(3)	–
Movement in deferred tax on realisation of equities		–	(427)	–	427	–	–
Tax on realised gains		–	(172)	–	172	–	–
Surplus attributable to assets sold in the year		–	1,052	–	(1,052)	–	–
Balance at 31 December 2018		**1,292**	**8,118**	**95**	**46,661**	**6,218**	**62,384**

	Note	Share capital £'000	Realised capital reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017		1,292	7,395	95	41,524	5,019	55,325
Profit for the year	2	–	–	–	–	2,104	2,104
Other comprehensive income for the year	2	–	–	–	–	4,731	4,731
Dividends paid		–	–	–	–	(2,183)	(2,183)
Revaluation gain on equities		–	–	–	121	(121)	–
Revaluation gain of subsidiaries		–	–	–	4,728	(4,728)	–
Realised gain		–	15	–	–	(15)	–
Tax on realised gains		–	(57)	–	57	–	–
Surplus attributable to assets sold in the year		–	309	–	(309)	–	–
Balance at 31 December 2017		1,292	7,662	95	46,121	4,807	59,977

Notes to the company financial statements
for the year ended 31 December 2018

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 (98.6% 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.

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are categorised as financial assets at amortised cost. These are measured at amortised cost using the effective interest rate method, less any impairment. Discounting is omitted where the effect of discounting is immaterial.

Deferred tax

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.

Financial liabilities

The company's financial liabilities include trade and other payables. Trade payables are recognised initially at fair value less transaction costs and subsequently measured at amortised cost. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

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 £4,926,000 (2017 £6,835,000). Information regarding directors' remuneration appears on pages 34 to 40 of this annual report.

3 Auditor's fees

	2018 £'000	2017 £'000
Fees payable to the company's auditor for the audit of the group's annual accounts	**31**	30
Fees payable to the company's auditor for other services:		
Audit-related assurance services	**1**	1
	32	31

4 Dividends

In 2018 the following dividends have been paid by the company:

	2018 £'000	2017 £'000
2017 Final: 30.0p per ordinary share (2016 26.0p)	**1,550**	1,343
2018 Interim: 18.75p per ordinary share (2017 16.25p)	**969**	840
	2,519	2,183

On 21 March 2019 the directors declared a property income distribution of £1,744,000, 33.75p per share (2017 £1,550,000, 30.0p per share) payable on 31 May 2019 to shareholders registered at 3 May 2019.

5 Investments

		Shares in subsidiary	Other investments	
	Total £'000	undertaking £'000	Listed £'000	Unlisted £'000
Valuation at 1 January 2018	57,372	55,241	2,122	9
Disposals	(1,331)	–	(1,331)	–
Surplus on revaluation in excess of cost	995	1,116	(121)	–
Valuation at 31 December 2018	**57,036**	**56,357**	**670**	**9**

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

		Shares in subsidiary	Other investments	
	Total £'000	undertaking £'000	Listed £'000	Unlisted £'000
Cost at 31 December 2018	**10,342**	**10,271**	**67**	**4**
Cost at 31 December 2017	10,621	10,271	346	4

At 31 December 2018 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. All the subsidiaries had the same registered office address as the company: Thomas House, Langford Locks, Kidlington, Oxfordshire, OX5 1HR.

Notes to the company financial statements continued
for the year ended 31 December 2018

5 Investments continued

At 31 December 2018 the net assets and the profit for the financial year of these subsidiaries were:

	2018		2017	
	Net assets £'000	**Profit/(loss) for the financial year £'000**	Net assets £'000	Profit for the financial year £'000
Rodenhurst Estates Limited	**56,354**	**5,114**	55,240	6,728
BL (Wisbech) Limited	**–**	**–**	–	–
Belgrave Land (Wisbech) Limited	**3,106**	**(750)**	3,856	337

6 Debtors

	2018 £'000	2017 £'000
Owed by subsidiary undertakings	**5,850**	3,229
Other debtors	**71**	6
	5,921	3,235

7 Creditors – amounts falling due within one year

	2018 £'000	2017 £'000
Other taxes and social security	**53**	47
Other creditors	**516**	351
	569	398

8 Provision for liabilities - deferred tax

Deferred tax, 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 19% (2017 19%)

	2018 £'000	2017 £'000
At 1 January	**254**	375
Additions	**–**	–
Utilised	**(173)**	(57)
Reversals	**(48)**	(64)
At 31 December	**33**	254

9 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid 5,167,240 (2017 5,167,240) ordinary shares of 25p each	**1,292**	1,292

10 Capital commitments

There were no capital commitments at 31 December 2018 or at 31 December 2017.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2018 or at 31 December 2017.

12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2017 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:

	2018 £'000	2017 £'000
Property income distribution paid to related party	**686**	595
Licence fee for use of property and recharge of sundry costs paid to related party	**14**	14

Charles Butler is a director of both the company and Belerion Capital Group Limited. During the year the company was charged £258 by Belerion Capital Group Limited for meeting room hire of which £124 was outstanding at the year end.

Under the provisions of section 33 FRS102, transactions between Highcroft Investments PLC and its subsidiaries Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited are exempt from these disclosure requirements as they are all wholly-owned subsidiaries.

13 Employees

The employees of the group are all employees of the company and all their costs are incurred by the company as follows:

	2018 £'000	2017 £'000
Remuneration	**485**	441
Pension costs	**2**	1
Social security costs	**58**	52
	545	494

Group five year summary
(unaudited)

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Investment properties – at annual valuation	**77,700**	77,113	65,997	57,964	46,523
Equity investments – at market value	**679**	2,131	2,469	3,155	4,532
Total net assets	**62,384**	59,977	55,325	53,023	47,702
Net asset value per share in issue at end of each year	**1207p**	1161p	1071p	1026p	923p
Revenue (excluding gains/losses on disposals of assets)					
Gross rental revenue	**5,043**	4,765	3,906	3,435	3,079
Net admin expenses to gross rent	**14.6%**	13.9%	16.7%	15.5%	14.0%
Profit available for distribution	**4,512**	3,348	2,912	2,871	3,758
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**95.3p**	132.3p	84.0p	140.0p	136.5p
Adjusted earnings per ordinary share	**87.3p**	64.8p	55.7p	55.6p	72.7p
Dividends payable per ordinary share	**52.50p**	46.25p	41.00p	38.80p	36.00p
FTSE 350 Real Estate Index	**468**	568	515	588	543
Highcroft year-end share price	**885.0p**	887.5p	897.5p	987.5p	855.0p

Directors and advisers

Company number
00224271

Directors
Charles Butler, BSc ACA
(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

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Statutory Auditor
Chartered Accountants
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