Highcroft Investments PLC

Shareholder Focused
Market Aware
Opportunity Driven

NAVIGATING MARKET UNCERTAINTY FOR LONG-TERM SUCCESS

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 December 2020

Stock code: HCFT
www.highcroftplc.com

Highcroft Investments PLC

Annual report and accounts 2020

Who we are
Highcroft Investments PLC is an internally managed Real Estate Investment Trust (REIT), which invests in commercial property in England and Wales.

Our purpose
Highcroft's purpose is to provide our tenants with excellent properties, in optimal locations, enabling them to succeed and our stakeholders to benefit on a long-term sustainable basis.

Our vision
Our vision is to ensure every opportunity has a positive impact on others.

Our strategy
Highcroft aims to deliver sustainable long-term income and capital growth for its shareholders through accretive asset management initiatives and recycling of capital in its regionally based property portfolio.

We deliver our strategy by leveraging our strengths:

- An experienced internal team
- Financial strength
- High-quality property assets
- Moderate gearing

View more online at:
www.highcroftplc.com

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.

Highlights

Dividends payable to shareholders

57.00p +18.7%

2020	57.00p
2019	48.00p
2018	52.50p
2017	46.25p
2016	41.00p

Gross property income

£6.1m +4.2%

2020	£6.1m
2019	£5.8m
2018	£5.0m
2017	£4.8m
2016	£3.8m

Adjusted earnings per share

67.7p –13.8%

2020	67.7p
2019	78.5p
2018	87.3p
2017	64.8p
2016	55.7p

Value of property assets

£82.1m –5.4%

2020	£82.1m
2019	£86.7m
2018	£77.7m
2017	£77.1m
2016	£66.0m

Average lot size

£3.7m -5.4%

2020	£3.7m
2019	£3.9m
2018	£3.9m
2017	£3.6m
2016	£3.3m

Net asset value per share

1,104p –6.0%

2020	1,104p
2019	1,175p
2018	1,207p
2017	1,161p
2016	1,071p

Net property income

£5.5m –3.4%

2020	£5.5m
2019	£5.7m
2018	£4.9m
2017	£4.5m
2016	£3.7m

Total earnings per share

-22.2p

2020	(22.2)p
2019	23.3p
2018	95.3p
2017	132.3p
2016	84.0p

Net debt/gearing

£23.9m/42%

2020	£23.9m/42%
2019	£24.6m/41%
2018	£14.2m/23%
2017	£17.5m/29%
2016	£11.5m/21%

Occupancy in our portfolio

99%

2020	99%
2019	100%
2018	100%
2017	100%
2016	100%

Contents

Chairman's statement

> Highcroft produced a commendable performance in 2020."

Charles Butler
Chairman

Dear shareholder,

Introduction

While 2020 will go down in history as one of the most difficult post war periods we have experienced I am pleased to report that in the circumstances Highcroft have delivered a commendable performance with net rent after bad debt provisions falling just 3.4% to £5.46m.

Property portfolio

Over the last few years we have purposefully repositioned the portfolio significantly, moving away from high street retail and into warehouses and onto well located out of town retail parks, to reflect the changing patterns of consumer behaviour. Whilst all retail locations were hit hard by lockdowns throughout 2020 it is fair to say high street retail took the worst of it with retail parks faring slightly better due to their ability to adhere more easily to social distancing rules and work as click and collect locations for online orders. At the year end, high street retail represented just 8% of the total portfolio with retail warehouses at 26% and warehouses at 46%. The positive trends on warehouse demand and values during the year partially offset the decline in capital values for retail assets meaning that the valuation of the Highcroft portfolio fell by only 5.4% to £82.1m by the year-end. This compares favourably to the MSCI UK all property index which fell by 6.2% over the same period.

Due to the levels of uncertainty created by the COVID-19 pandemic we chose not to buy or sell any assets during the year and instead concentrated on working closely with our tenants to ensure we minimised rental voids and empty units. Our rental collection for 2020 to date is 94% of the contractual rent due. We also kept our debt levels conservative and manageable with our ratio of net debt to property value at 29% and an LTV of 33%. The overall impact on the company's net assets for the year was a reduction of just 6%.

People

When times are tough like they were in 2020 it is far too easy to just focus on the fact that returns for the year have been negative. Whilst not what we had hoped to deliver, it is easy to forget that in exceptional years like this the team have to go above and beyond their normal duties to protect shareholder value. To that end, I would like to thank the team at Highcroft for all their hard work and dedication during the year.

On 10 December 2020 David Kingerlee announced that he would be representing the interests of our largest shareholder, Kingerlee Holdings Limited, on the board and, with effect from 7 April 2021 (the date of signing of the year end accounts), would change his status from an executive director to a non-independent non-executive director. I would like to thank David for his contribution to the business over the many years he has worked as an executive director.

Dividend

Whilst we recognise the importance of dividends to our shareholders, we must balance this with ensuring we keep sufficient cash available to take account of unforeseen circumstances in what continue to be unpredictable times.

The company's interim dividend was held at 21p as a result of good rent collection levels and we are proposing a final dividend of 30p per ordinary share taking the total ordinary dividend for the year to 51p. When deciding on the final dividend for 2019 and interim dividend for 2020 we took certain rent collection projections into account. As actual rent collections have been have strong we are also declaring a special dividend of 6p per ordinary share for 2020, making the total dividend payable in May 2021 36p per ordinary share.

Outlook

This time last year when we released our 2019 full year results we were aware of the COVID-19 outbreak and the first 3-month UK wide lockdown had commenced. I certainly didn't think that a full year later we would only just be starting to see signs of the country getting back to some semblance of normality.

Whilst we have a well-diversified portfolio, a relatively low level of gearing and a healthy cash balance, as a board we will continue to take a cautious approach to managing our portfolio and the group to ensure we can weather any further market volatility and continue to deliver long-term shareholder value.

Charles Butler
Chairman
7 April 2021

COVID-19 statement

COVID-19 and its impact on our performance

COVID-19, and the resultant series of lockdowns, has had a significant effect on the property market. At Highcroft, we have worked with our tenants to get through these difficult times to ensure their businesses survive for the future; our high rent collection rates are testament to this. Where necessary, we have agreed rent concessions or rent payment plans to assist those unable to trade and most affected by the lockdowns. The amount of rent we collect affects the amount of dividend that we pay to our shareholders and Highcroft has worked hard to maintain these dividends.

The assistance that Highcroft received from the government

Unfortunately, the government provided very little direct assistance for property owners. At the beginning of the pandemic they introduced an embargo on commercial rent arrears recovery, and the coronavirus business interruption loans were not available to property companies. As a result, Highcroft did take advantage of the PAYE and NIC payment deferral that was available for the March and April payroll liabilities and repaid this £198,000 in full by the due date in June. In addition, it took advantage of the VAT payment deferral that was available and repaid this £316,000 in 2021 prior to the deadline of 31 March.

Highcroft also used the concession agreed with HMRC that the payment period for the 2019 PID could be extended by up to six months. Furthermore, part of this 2019 PID was able to remain unpaid at the expiration of the six month period, subject to the payment of corporation tax on the unpaid element. For more details see page 32.

How we considered our stakeholders during the pandemic

The board took the decision on 30 April 2020 to pay a reduced final dividend in the light of the financial uncertainty arising from the global COVID-19 pandemic. In reaching this decision, the board specifically considered stakeholder interests and the matters set out in section 172 (1) of the Companies Act 2006.

A key driver of the decision was to provide greater flexibility in the short to medium-term that would enable us to provide some flexibility to our tenants who operated in the sectors that were suffering the greatest impact from the lockdown at that time, protect the long-term value of the business and further strengthen our financial resilience at a time when the future path of the pandemic was unknown.

The board considered the impact to the local communities that their tenants operate in when considering the level of support that would be offered to them.

The board followed government guidance and ensured that employees did not need to go into the office and could work effectively from home, and replaced its face-to-face meetings by video calls to minimise risk to the board, our employees and our advisers.

Our asset managers provided support to our tenants in multi-let units to ensure that they followed the relevant government guidance applicable at the time.

The board communicated regularly and held additional formal and informal meetings during the period since the start of the pandemic to consider the changing environment, the issues arising from our tenants and the mitigation steps that we should take to ensure the long-term success of the company.

Read more about **stakeholder engagement** on page 33

The implications that COVID-19 has had on our portfolio

The lockdowns during 2020 forced many of our tenants to close their operations or operate on a limited basis; in some cases, this affected their ability to pay their rent and the government embargo for any commercial rent arrears recovery made the task of the landlord very difficult. The after effects of COVID-19 will continue for some time and occupiers will be wary in making long-term lease commitments until after a long period of certainty; this may impact on the level of achievable rents and the resultant values.

What the long term looks like

The rapid roll out of the vaccination programme is starting to give the market, and the public, confidence. There is an urgency amongst many to return to 'normal', which means returning to places of work and being able to frequent leisure and hospitality venues. It is forecasted that the UK economy will grow by 3.4% to 4.6% in 2021, most of which will happen in the second half of the year, and this will lead on to businesses wanting to grow, which will have a direct and positive impact on the property market. However, the dramatic increase in online shopping, resulting from the stay-at-home ruling, is likely to have a serious long-term effect on retailing, to the detriment of the secondary high streets; the UK public's shopping habits have changed for the future.

Q&A

with
Simon Gill
Chief executive

Q What were your rent collection rates for 2020?

A We were pleased that our rent collection rates were ahead of the market average. After taking into account asset management exercises, and rent received under deferred payment plans, our rent collection data as a proportion of the contractual rent due for the four quarters were:

Q1 2020	100%
Q2 2020	89%
Q3 2020	95%
Q4 2020	91%
Total 2020	**94%**

In addition, we have, at the date of this report, collected 89% of the contractual rent due for Q1 2021 and 88% of that due for Q2 2021..

Q What was the impact of COVID-19 on your acquisition and disposal strategy?

A We made no property acquisitions or disposals in 2020 as we concentrated on managing our existing portfolio and assisting some of our tenants who were experiencing difficult trading conditions due to the pandemic. We also concentrated on potential asset management opportunities within our portfolio. Towards the end of the year, we decided to take advantage of emerging market trends for the attractiveness of long-dated income and started to market one of our long-leasehold investments.

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 16

Highcroft Investments PLC

Group administration

Property investments

Rodenhurst Estates Limited | Belgrave Land (Wisbech) Limited

With effect from 10 December 2020, Highcroft has been considered to be an associated undertaking of Kingerlee Holdings Limited, which owns, through its wholly-owned subsidiaries, 27.2% of Highcroft. More details are on pages 16 and 17.

Aligning to stakeholder interests

Highcroft has identified its key stakeholder groups, and these are set out on page 33, together with their interests and how we engage with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships. By understanding our stakeholders, we can factor into boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns. This, in turn, ensures we continue to provide space that our occupiers desire, work effectively with our advisers, make a positive contribution to local communities and achieve long-term sustainable returns for our investors.

- Our shareholders
- Our tenants
- Our advisory team
- Society and communities
- Our employees

Read more about **our stakeholder engagement** on page 33

Investment case – four reasons to invest in Highcroft:

1 Strong balance sheet and cash generative

Our £82.1m, 868,000 sq ft of assets underpin our balance sheet and financial strength

Read more about **our assets** pages 06 to 11

2 Progressive dividend returns

Our dividends have increased by a compound annual rate of 7.4% since joining the REIT regime in 2009

Read more about **our dividend history** on page 24

3 Diversified and sustainable income from the UK property market

We have 22 assets, spread across five sectors, geographically focused in the south of the UK with a WAULT of 5.9 years

Read more about **our property portfolio** on pages 06 to 11

4 Strong internal management team, aligned with shareholders' interests, with a consistent track record

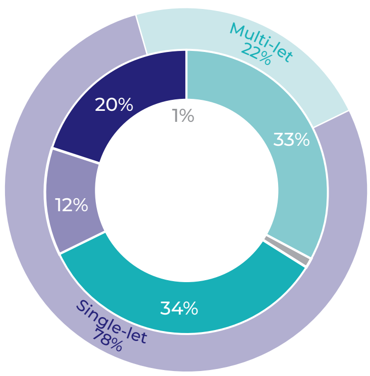
Our experienced executive team has consistently delivered on our strategy

Read more about **our board** on pages 40 and 41

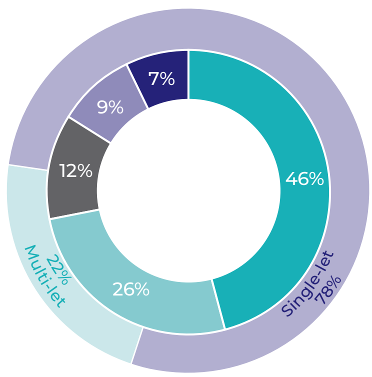
Property investments – shift in portfolio sector balance

Split by valuation

Split by sector 2015



Split by sector 2020



- Warehouse
- Office
- Retail warehouse
- High street retail
- Leisure
- Residential

Shift in portfolio

In 2014, 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 all of its residential properties. We have continued with this rebalancing in 2020.

Portfolio outlook

The directors will continue to pay very close attention to forecast market trends and will look to rebalance the portfolio to meet our objectives within our risk appetite.

Read more about **our performance** on pages 22 to 27

Read more about **our portfolio** on pages 06 to 11

Read more about **our risk appetite** on page 28

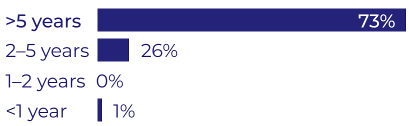
Investment properties at annual valuation

£82.1m –5.4%

Weighed average lease length

5.9 years -6.3%

Weighted average lease expiries



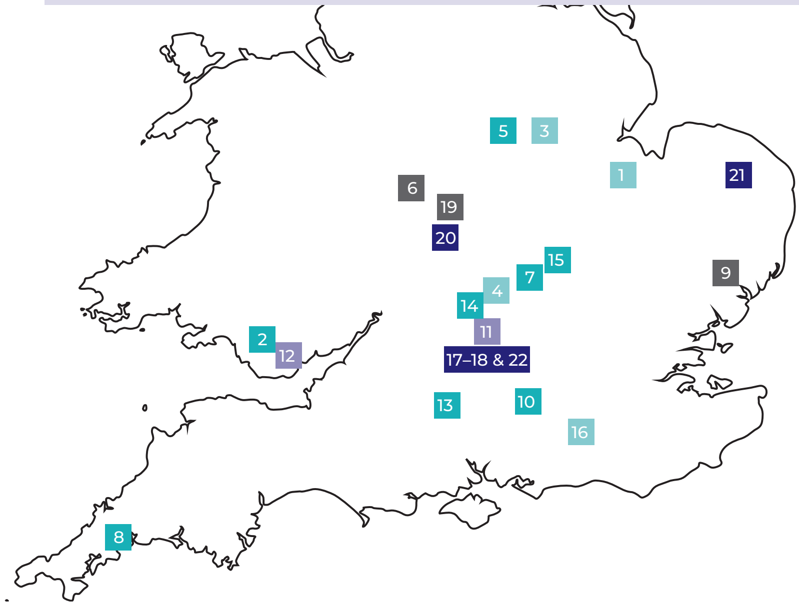
Our portfolio

Shift in portfolio

We continually assess the balance of our portfolio against market trends and predictions, which has resulted in a reduction in our exposure to the high street over the past few years and an increase in our holdings in the warehouse sector. By way of illustration, in 2015 our high street retail holdings constituted 20% of our portfolio compared with 7% in 2020, and for warehouse the corresponding figures are 34% and 46%. The COVID-19 pandemic has brought new factors and changes into the property market, producing an even greater demand for warehouse space, fuelled by online retailing, at a great cost to the high street, and an uncertainty among office occupiers. The future shaping of our portfolio will take these factors into account.

The south of England and Wales

Our portfolio is based throughout the southern half of England and Wales, and Highcroft has benefited from the growth in rents and values in these areas. Our area of search for new opportunities is not solely confined to these areas and we will consider the merits of any opportunity subject to solid property fundamentals. There has been a government emphasis in promoting business in the regions beyond the south east, which will hopefully provide us with future opportunities.



Our property assets

Our property assets are valued at £82,060,000. During the year, our property assets decreased in value by 5.4% on a like-for-like basis.

Total property asset value

£82.1m

Number of property investments

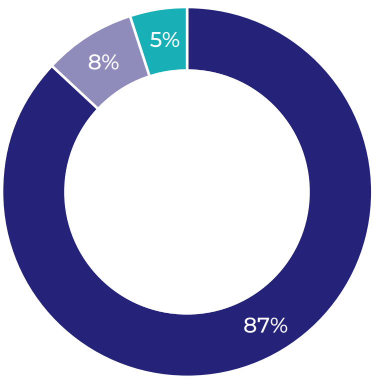
22

Our core sectors

- Warehouse
- Leisure
- High street retail
- Retail warehouse
- Office

Numbering corresponds to order of assets by valuation. For more detail see pages 07 to 10.

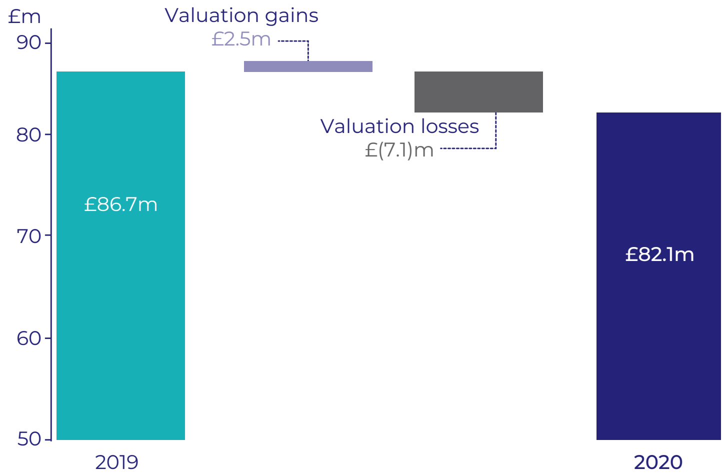
Split by tenure %



- Freehold £71.6m
- Virtual freehold £6.5m
- Long leasehold £4.0m

Movements in investment property valuation

–5.4%



Sector overview

Warehouse/industrial

Once again, this sector outperformed all other property sectors. The COVID-19 pandemic produced an even greater demand for warehouse space due to the exponential increase in online retailing. The demand was not only for large distribution hubs but also for smaller, in-town units to cater for last mile distribution logistics. We have witnessed the benefit of the increase in activity in the warehouse/industrial sector in our portfolio with lease renewals and increased rental levels at our properties in Milton Keynes and Kidlington.

	Warehouse portfolio	Value £'000
2	Llantrisant	6,500
3	Nottingham	6,300
6	Milton Keynes	5,700
8	St Austell	4,250
9	Ash Vale	4,250
13	Andover	3,250
11	Kidlington	4,125
14	Bedford	3,175
Total		37,550

Retail warehouse

The continued decline in the high street retail sector was evidenced in the retail warehouse sector in 2020. Lockdown meant that the majority of tenants could not trade for a significant part of the year and, therefore, there was little interest from occupiers to take new units. This sector represents 26% of our portfolio and all of our units are occupied.

	Retail warehouse portfolio	Value £'000
1	Grantham	6,700
4	Wisbech	6,250
5	Bicester	6,000
16	Crawley	2,525
Total		21,475

Leisure

The leisure industry suffered considerably in 2020 due to lockdown regulations, which saw the food and beverage sector, along with gyms, close to abide by social distancing rules, resulting in a massive decline in revenues. We, unfortunately, had direct experience of this with one of the tenants of our Ipswich property, DW Sports and Fitness Club, entering into CVA; also one of our tenants in Coventry, The Restaurant Group, went into CVA but in this instance we inherited a sub-tenant who continues to trade from the property at the same rent.

	Leisure portfolio	Value £'000
7	Rubery	5,150
15	Ipswich	3,000
19	Coventry	1,900
Total		10,050

Office

A lot of offices have remained unoccupied for a significant period throughout 2020 due to the pandemic, and it is anticipated that the new work from home style will have long-term repercussions on the office sector. There will be greater demand for non-core offices to reduce commuting to busy city centres; although, counter to this, there is a desire from the workforce after months of lockdown to return to 'normal' and a more sociable working environment. The offices in our portfolio are fully occupied and we expect them to perform well.

	Office portfolio	Value £'000
10	Oxford	4,150
12	Cardiff	3,300
Total		7,450

High street retail

2020 was another poor year for the high street with a significant number of retailers entering into administration/CVAs – Debenhams, Arcadia, EWM, M&Co, T M Lewin, etc. Highcroft also had experience of this when Jigsaw went into CVA in September; however, our other tenants continue to trade but undoubtedly conditions are very difficult; we continue to work closely with our tenants. This sector accounts for only 6.7% of our portfolio.

	High street retail portfolio	Value £'000
16 17	Oxford (2 units)	2,550
20	Leamington Spa	1,285
21	Norwich	950
22	Oxford	750
Total		5,535

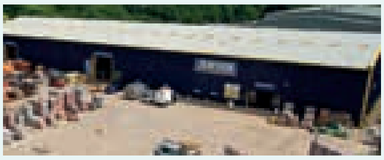
Alternatives

We are constantly looking for opportunities to acquire new properties and would look favourably at the alternatives sector – retirement homes, hospitals, etc. – where we believe there may be some good growth to come in both rental and capital terms. This would also help to further balance our portfolio and spread our risk.

Our portfolio continued

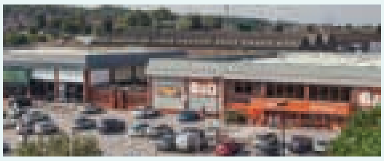
Warehouses

Total value: **£37.6m**

		Tenure	Let to	Value £'000	Size sq ft
13	**Andover** 	Long leasehold warehouse	Saint-Gobain t/a JEWSON	3,250	19,331
9	**Ash Vale** 	Freehold warehouse	SIG	4,250	25,081
14	**Bedford** 	Freehold warehouse	BOOKER	3,175	40,536
11	**Kidlington** 	Freehold warehouse		4,125	30,638
2	**Llantrisant** 	Virtual freehold warehouse/r&d facility		6,500	107,684
6	**Milton Keynes** 	Freehold warehouse	IKEA	5,700	43,444
3	**Nottingham** 	Freehold warehouse	BOOKER	6,300	83,916
8	**St Austell** 	Freehold warehouse	Walstead	4,250	250,087

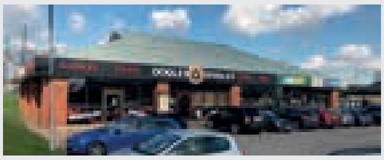
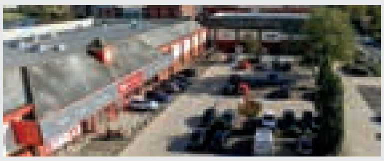
Retail warehouses

Total value: **£21.5m**

	Property	Tenure	Let to	Value £'000	Size sq ft
5	**Bicester** 	Freehold retail warehouse	Wickes	6,000	29,130
18	**Crawley** 	Freehold retail warehouse	pets at home	2,525	6,898
1	**Grantham** 	Freehold retail warehouse	B&Q, M&S Food	6,700	42,090
4	**Wisbech** 	Freehold retail warehouse park	Currys PC World, halfords, pets at home, Dunelm	6,250	55,628

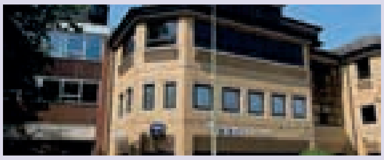
Leisure

Total value: **£10.0m**

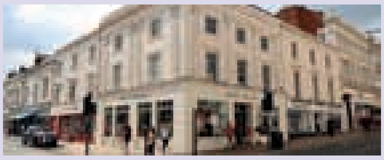
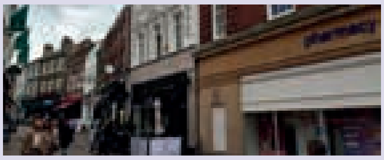
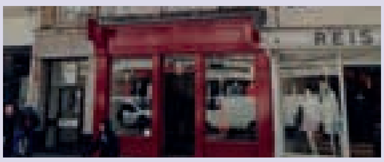
	Property	Tenure	Let to	Value £'000	Size sq ft
19	**Coventry** 	Freehold leisure	GREGGS, SUBWAY	1,900	5,953
5	**Ipswich** 	Freehold leisure/retail	* DW, ORWELL * in administration	3,000	43,738
7	**Rubery** 	Freehold leisure	Nuffield Health	5,150	38,264

Our portfolio continued

Office — Total value: £7.5m

		Tenure	Let to	Value £'000	Size sq ft
10	**Oxford Summertown** 	Freehold offices	BBC	4,150	11,526
12	**Cardiff** 	Freehold offices	Trafnidiaeth Cymru Transport for Wales	3,300	17,797

High street retail — Total value: £5.5m

		Tenure	Let to	Value £'000	Size sq ft
20	**Leamington Spa** 	Freehold shop	Sabre Retail Ltd t/a Mint Velvet	1,285	3,139
21	**Norwich** 	Freehold shop	Harriets	950	4,658
22	**Oxford High Street** 	Freehold shop	Void	750	1,741
17 18	**Oxford High Street** 	One long leasehold One freehold shop/office	Robinson Webster t/a Jigsaw	2,550	6,895

A diversified portfolio well-placed to perform in uncertain times

Retail warehouse - Crawley

Offices - Oxford


Warehouse - Ash Vale


Warehouse - St Austell


Warehouse - Andover


Offices - Cardiff


Warehouse - Llantrisant


Warehouse - Kidlington

STRATEGIC REPORT


B&Q
EXIT
ENTRANCE
B&Q
BABY SHOP

Our marketplace

Economic backdrop

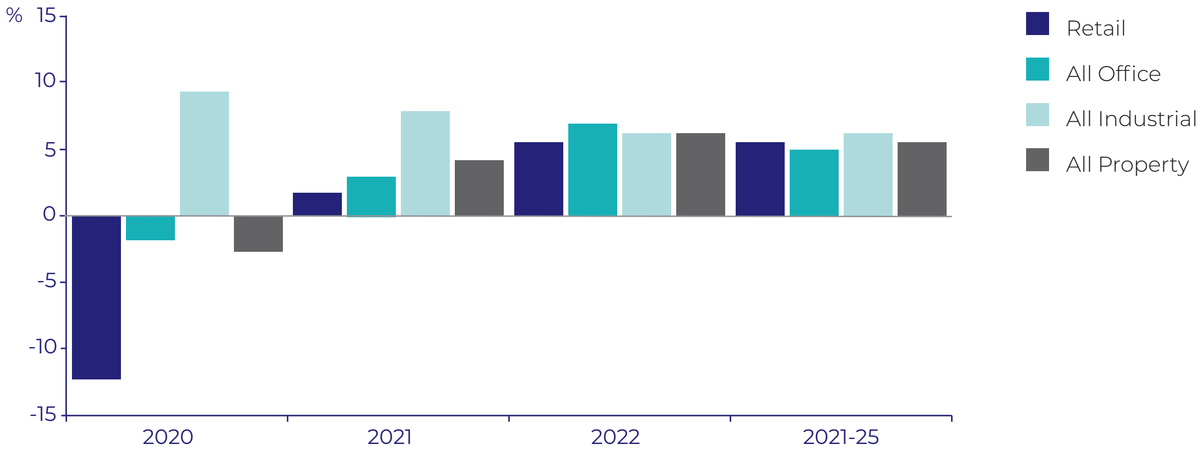
The UK economy contracted by a record 10% in 2020, caused by the COVID-19 pandemic and the ensuing lockdowns; businesses struggled to survive and the workforce was fearful of attending workplaces. The protracted Brexit negotiations added to the frustration of businesses, which were unable to plan ahead and put any prospect of expansion on hold. However, interest rates remained at an all-time low but with the new threat of negative interest rates in the background. The overall negative effect on the economy has been profound.

Looking forward, the forecast for 2021 is a slow start to the year with a projected GDP growth of 3.4% to 4.6%; the accelerating roll out of the vaccine programme will give a positive drive to the economy and there is a widespread desire to return to work and normality. Brexit will cause problems for specific areas such as financial services and some areas of logistics, but the overall effect will be a long-term drag on growth.

All property forecast summary	Dec-21	Dec-22	Dec-23	2021-2025
ERV Growth (% pa)	(1.9)	1.0	2.0	0.9
Equivalent Yield (% eop)	5.9	5.8	5.9	5 bps
Capital Growth (% pa)	(0.8)	1.2	0.3	0.6
Total Return (% pa)	**3.8**	**6.3**	**5.5**	**5.6**

Source: Colliers International

Total return by sector



Source: MSCI Colliers International

Market trend	What this means for Highcroft	How are we responding
COVID-19 The pandemic caused by COVID-19 has been the overriding dominant factor to the economy during 2020.	Some of our tenants have been seriously affected by the restrictions imposed by the lockdowns – particularly in the retail and hospitality sectors.	We work with our tenants to ensure the continuity of their businesses; however, high street retail forms the smallest part of our portfolio.
Online retailing There has been a dramatic increase in online retailing.	A potential impact on the future rental growth of our high street retail and retail warehouse assets.	We have reduced our exposure to the high street over the past few years and closely monitor our retail warehouse properties.
Economic backdrop UK GDP contracted by an estimated 10% in 2020 and is estimated to grow by 3.4% to 4.6% in 2021.	The businesses of some of our tenants were badly affected in 2020.	Our assets should perform if consumer spending increases as forecast.
Brexit 2020 finally witnessed the completion of a trade agreement with the EU.	This will provide the business community with confidence and certainty for future trading.	Our investments will benefit from this increased confidence and resultant growth.

Market trend	What this means for Highcroft	How are we responding
Industrial		
The demand for industrial space in 2020 was the highest on record.	High prices are still being achieved making it difficult for Highcroft to buy and show good returns, although we still seek out opportunities.	This demand has meant Highcroft has achieved good increases in rents upon lease renewals and significant uplifts on valuation of some of our industrial assets.
Offices		
The work from home discipline imposed by the lockdowns has led to a review of future office occupation and demand, particularly in city centres.	Highcroft's office investments are in locations not affected by this new sentiment.	Our investments have performed well and we look to improve upon this performance.
Retail warehouses		
Retail warehouses were also affected by online sales and lockdowns, but certain 'essential' traders thrived in this period.	We have a mix of tenants in this sector including Jewson, Wickes and Pets at Home, who traded for most of the year within the government guidelines.	Our rent collection rates were high and all of our units are occupied.
High street retail		
The lockdowns enforced by the pandemic saw an unprecedented amount of CVAs, administrations and receiverships on the high street.	We have a minimal exposure to the high street but 2020 saw one of our tenants, Jigsaw, enter into a CVA.	Where necessary, we work out payment plans to assist our tenants and potentially revert to turnover rents when a tenant is in CVA.
Leisure		
The leisure, food and beverage industries were the most affected by the pandemic lockdowns.	This does not form a large part of our portfolio, but we experienced one CVA and one administration.	One of our units in a multi-let site has become vacant in 2021 and is being marketed, and we inherited a sub-tenant from the tenant in CVA.
Investment		
Total returns from nearly all sectors of the property market were negative in 2020, ranging from offices at -0.9% to shopping centres at -19.0%; the exception being distribution, which showed a total return of +8.9%.	There were very few opportunities available in the market worth Highcroft's consideration and we did not want to pay such low yields for distribution.	We took a cautious approach during 2020 and concentrated on managing our existing assets, which resulted in good lease renewals at enhanced rents.
Overseas investors were still present in the UK market in 2020, although the uncertainties of the Brexit negotiations still led to an element of caution.	Overseas investors look mainly at London, and trophy buildings.	These are not the sectors in which Highcroft look to compete.
Investors still seeking secure, well-let investments on long leases.	Prices for this category are still very keen.	Highcroft is prepared to look at alternatives to this to obtain better returns on properties we consider have a good long-term future and in regions further from the south-east.

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 cyclical 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 sectors, 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.

We are:

- Shareholder focused
- Market aware
- Opportunity driven

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 08 to 10, they are mainly large commercial companies requiring property on long-term leases.

Our key relationships

Our key relationships are with our tenants, our advisory team and with local communities.

Read more about **our stakeholders** on page 33

Key activities

1 Buying

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.

What we look for:

- Location
- Growth markets
- Areas of decline
- Potential of development

Read more about **our marketplace** on pages 14 to 15

2 Generating rental income

We use a combination of our key resources in order to select the best opportunities within our chosen market segments, to asset manage, redevelop or refurbish, to increase the value of the property.

Asset management:

We maximise the value of our portfolio through forward thinking and practical planning.

Redevelop and refurbish:

We consider sustainable development, redevelopment or refurbishment where opportunities can be created.

Maintain strong relationships:

We work closely with our advisers and specialists to ensure that the right decisions are taken to maximise the opportunities for generating rental income.

Money reinvested

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 on a long-term sustainable basis.

Our culture
Highcroft's culture is hard-working and flexible, progressive and pragmatic, collaborative and supportive, efficient and effective.

Our values
Highcroft's values are reputation, integrity and good governance built on long-term relationships, and on sustainability and responsibility.

The value we generate

3 Selling

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.

Average length of lease

5.9 years

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 that 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

Introduction to our strategy

The objective of the group is to generate secure and sustainable income growth to drive a progressive dividend, which, when coupled together with capital value growth, will deliver strong total shareholder returns. We set clear strategic priorities against which we measure our performance.

The effect of the global COVID-19 pandemic on our strategy

As the pandemic began to unfold during the second quarter, the board considered the impact of this on Highcroft's stated strategy. It concluded that, whilst there was no change to the long-term strategy of the business, in the short term certain actions should be carried out to ensure that the business was being managed prudently, particularly with respect to cashflow. It was agreed that Highcroft would take advantage of an HMRC concession regarding PID payments and pay a final dividend for 2019 at a 20% discount to the prior year, and the 2020 interim dividend was held at the same level as the prior year, enabling the group to conserve cash. It was decided not to pursue any disposal or acquisition opportunities in the year and to consolidate our positions with our existing tenants. In addition, the group drew an additional £1m from Handelsbanken plc in November 2020 to further enhance its cash resources.

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 on a long-term sustainable basis.

Understanding the external environment

We pay great attention to market trend forecasts and consider the impact that these may have on our strategy. Our decision to rebalance the portfolio away from residential and high street retail assets, and focus more on warehousing assets, together with a move to the larger average lot size, was taken in anticipation of evolving market trends. Our strategy was also altered in the short term, as the COVID-19 pandemic evolved.

Aligning to our stakeholders interests

All of our strategic priorities and the associated risk management strategies are developed with a focus on our overall objective of generating progressive returns for our investors with benefits to all our stakeholders.

Underpinned by our values:

- Shareholder focused
- Market aware
- Opportunity driven

Strategic priority	How this priority will help us achieve our overall objective	Progress in 2020	Future opportunities	Link to risks – page 30
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.	As a result of the COVID-19 pandemic, we took the decision to consolidate our portfolio during 2020 and not to pursue any acquisition opportunities.	As asset sourcing remains challenging in 2021, 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 3 4
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 decreased slightly to £3.73m from £3.94m, wholly due to a decrease in the valuation of the portfolio.	Future growth will come from revaluation gains, new assets being bought that are larger lots than our average, and from the disposal of smaller underperforming units.	3 4
C 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.	Lease events which occurred during the year have led to an improvement in yields on those properties.	Options are being considered for additional asset management opportunities.	1 2 3 4 5
Using available capital, including debt, efficiently and effectively				
D 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.	£4m of maturing medium-term debt with a weighted average interest rate of 4.45%, refinanced and supplemented with an additional £1m medium-term loan with a weighted average interest rate of 2.22%. Our debt has increased to £27.2m.	We have headroom with one lender of £2.8m and would consider additional gearing to fund further acquisitions alongside existing cash resources.	5 6
Deliver a sustainable income growth to our investors				
E 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.	Highcroft took the decision to conserve cash and took advantage of the HMRC concession regarding PID payments in 2020. Dividends payable for the year increased by 3p to 51p (6.25%) and we are also proposing a 2020 special dividend of 6p per share.	As a REIT, we are required, subject to HMRC COVID-19 concessions, to distribute 90% of our net property income.	ALL

Risk key

1	Economic outlook
2	Political and regulatory outlook
3	Occupier demand and tenant default
4	Commercial property investor demand
5	Availability and cost of finance
6	Business strategy
7	Key personnel

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. Due to the COVID-19 pandemic and its effect on dividend policy the board has adopted a KPI of "achieve an adjusted EPS in line with the market" to replace its KPI of "increase dividends payable to shareholders".

1. Increase value of property assets

2020	£82.1m
2019	£86.7m
2018	£77.7m
2017	£77.1m
2016	£66.0m

Link to strategy: A C D E

Link to risks: 1 2 3

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 decreased by £4,650,000, 5.4% on a like-for-like basis, which is better than the all property MCSI UK result of -6.2%.

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

2020	£5.5m
2019	£5.7m
2018	£4.9m
2017	£4.5m
2016	£3.7m

Link to strategy: A B C D E

Link to risks: 1 2 3

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 decreased by 3.4% in the year as a result of a bad debt provision of £366,000 and increased property costs of £70,000, offset by a £244,000 growth in rental income.

Looking forward

We expect a period of consolidation as we take positive asset management steps to deal with voids and to create opportunities arising from our potential sale of Andover in 2021.

3. Increase in net asset value per share

2020	1,104p
2019	1,175p
2018	1,207p
2017	1,161p
2016	1,071p

Link to strategy: A C D E

Link to risks: 1 2 3

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 decreased by 6% in 2020, primarily as a result of the decrease in our property valuation, offset by a reduction in our dividend distribution in 2020.

Looking forward

The market remains challenging in 2021 but our asset base is strong and we believe that it is well placed to outperform the market in the future.

KPI key

1–4 Financial KPIs

5–6 Non-financial KPIs

4. Achieve an adjusted EPS per share that is in line with the market

This KPI was new in 2020 and the performance was 5.8% compared to a weighted market return of 5.5%.

Link to strategy: E

Link to risks: 1 2 3

Why we use this indicator

This KPI measures our adjusted earnings per share and compares it to the MSCI income return for the year weighted to our portfolio. This links our performance for our shareholders to the performance of the market as a whole.

Commentary on performance

The 2020 performance was greater than the MSCI income return for the year which is considered to be a commendable performance in a challenging year.

Looking forward

It is hoped that future increase will remain ahead of the market.

5. Average occupancy levels

Link to strategy: E

Link to risks: 1 2 3

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 had 99% occupancy at the year-end, which remains ahead of general market performance.

Looking forward

Whilst we will strive to maintain high occupancy levels one unit in a multi-let building has become void in 2021, and we have a number of tenants who have been particularly badly affected by COVID-19.

6. Maintain the quality of our tenant covenants

Link to strategy: E

Link to risks: 1 2 3

Why we use this indicator

This indicator 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. During the year one covenant improved as it went to the parent company, and we took the covenant of an undertenant at our Coventry property to replace a tenant in CVA.

Looking forward

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

Operating review

“In 2020 we took a cautious approach to the market and concentrated our efforts on liaising with our tenants, minimising voids and maximising our rent collections”

Simon Gill
Chief Executive

Property income

	2020	2019	2018	2017	2016
Contracted annual rent at year end	£5,907,000	£6,253,000	£5,025,000	£4,966,000	£4,110,000
(Decrease)/increase in year	(5.5)%	+24.4%	+1.2%	+20.8%	+9.5%
Occupancy	99%	100%	100%	100%	100%

2020 was not only the year of COVID-19, but because of the pandemic, it became the year of the CVA, administration and receivership. The headline news became a daily bulletin of the latest crisis, mainly in the retail, and food and beverage sectors, which witnessed the closure of many high street shops, cafés and restaurants. The government tenant protection scheme meant that many landlords could not recover any rent for 12 months and certain tenants took advantage of this situation.

The non-payment of rent by many tenants led to significant reductions in rent collections for many property companies, particularly those with a retail bias. Over the past few years, Highcroft has concentrated in realigning its property portfolio and reducing its exposure to the high street, which meant that we were able to maintain a high rent collection rate. Whilst we experienced CVAs with The Restaurant Group and Jigsaw, and an administration with DW Sports and Fitness Club, we also achieved significant lease renewals with IKEA and Parcelforce, and did a regearing with Nuffield Health for a new 20-year lease without breaks. These management events have increased our income and improved the average unexpired terms of our leases. Other negotiations are currently in progress.

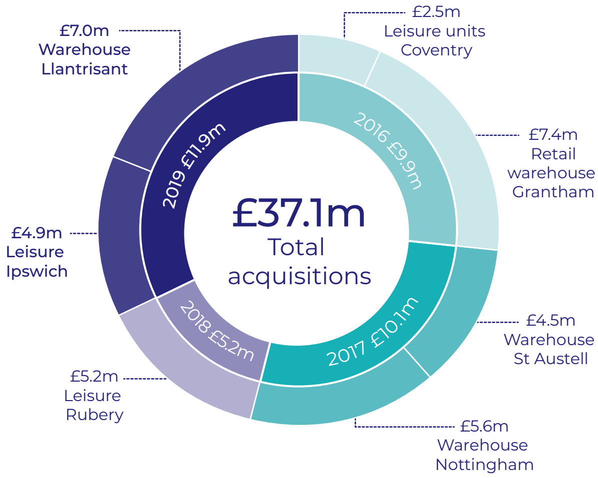
During 2020, one small high street retail unit became void due to a break clause being exercised. We continued with 100% occupancy throughout the rest of our portfolio, although one additional unit will become void in Q2 2021.

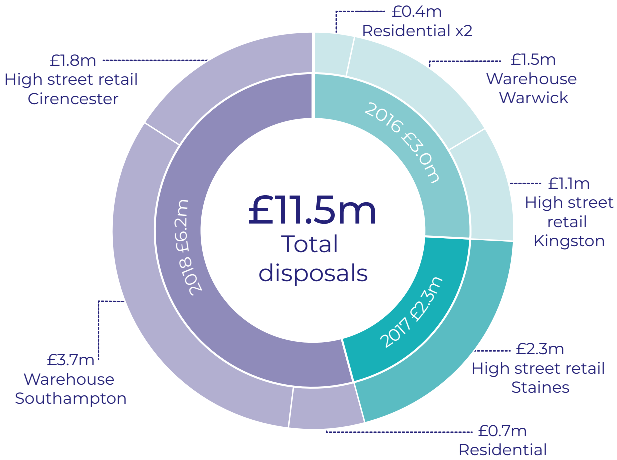
Investments

Our property valuation decreased by 5.4%. This compares favourably to the MSCI UK monthly all property capital value decrease of 6.2%. There were significant increases, 22%, in the value of our Kidlington property, and 16 % in our Milton Keynes property, due to lease renewals at higher rents.

The industrial sector showed an increase of 1.9%, which is lower than the MSCI comparable of 3.65%, as we had two properties with relatively short leases that performed less well. Since the year end, a new reversionary lease has been agreed on one of these properties. In line with the market, our high street retail sector witnessed noticeable decreases in valuation, of between 12.8% and 18.1%, as the existing poor performance of the high street was exacerbated by the impact of the COVID-19 pandemic. Our retail warehouse assets also showed a combined fall of 10.1%, compared to an MCSI performance of -14.8%. Our Grantham and Bicester assets, with their strong covenants, performed relatively well with a valuation fall of 5.6% and 7.7% respectively. Wisbech showed a fall of 14.4% and Crawley a drop of 15.8%.

Five-year summary of acquisitions and disposals





Note: there were no acquisitions or disposals in 2020.

"We have performed relatively well in a year where the marketplace was dominated by the effects of the worldwide pandemic."

Contracted rent at the year-end pa

£5.9m

Reduction in contracted rent pa

5.5%

Rental pipeline

£34.8m

Reduction in rental pipeline

10.9%

Our leisure assets showed a combined fall in value of 14.5%, primarily due to the fact that the primary tenant at our Ipswich property, DW Sports and Fitness Club, went into administration in August 2020. The property was occupied under licence for part of the subsequent period but the lease has now reverted to the administrator.

Property acquisitions and disposals

We made no property acquisitions or disposals in 2020 as we concentrated on managing our existing portfolio and assisting some of our tenants who were experiencing difficult trading conditions due to the pandemic. It was not the year to sell retail assets, which, even if it were possible to sell, were realising only significantly discounted prices. Meanwhile, warehouse and logistics were commanding premium figures making any new acquisitions too expensive to give our shareholders a satisfactory return. The overall volume of available investments was dramatically reduced in 2020.

Sector balance

The sector balance in our portfolio is now, by valuation:

	2020 %	2019 %	2018 %	2017 %	2016 %
Warehouse	46	42	39	40	29
Retail warehouse	26	27	33	34	39
Leisure	12	14	9	3	3
Office	9	9	9	9	10
Retail	7	8	10	13	18
Residential	0	0	0	1	1
Total	100	100	100	100	100

Over the past five years, we have worked to reduce our exposure to the retail sector, particularly the high street, whilst increasing our holdings in other sectors where we consider there are prospects for better growth and security of income. We continue to look for opportunities and opportunistic deals throughout the market.

Simon Gill
Chief executive
7 April 2021

Financial review

“In a challenging marketplace, in a year dominated by the COVID-19 pandemic, our underlying financial performance for the year was resilient.”

Roberta Miles
Finance director and company secretary

Overview

	2020	2019
Profitability		
Net rental income	£5,464,000	£5,656,000
Adjusted earnings per share	67.7p	78.5p
IFRS profit for the year	(£1,147,000)	£1,154,000
Net admin expenses to gross rent	17.6%	14.1%
Investment returns		
Net asset value per share	1,104p	1,175p
Dividend per share*	57p	48p
Total shareholder return	(18.5%)	12.7%
Return on equity	(1.9%)	1.9%
Financing		
Net debt	£23,905,000	£24,641,000
Net debt to property value	29%	28%
Average cost of debt at the year end	3.1%	3.5%

* For 2020 the figure includes a special dividend of 6p per share.

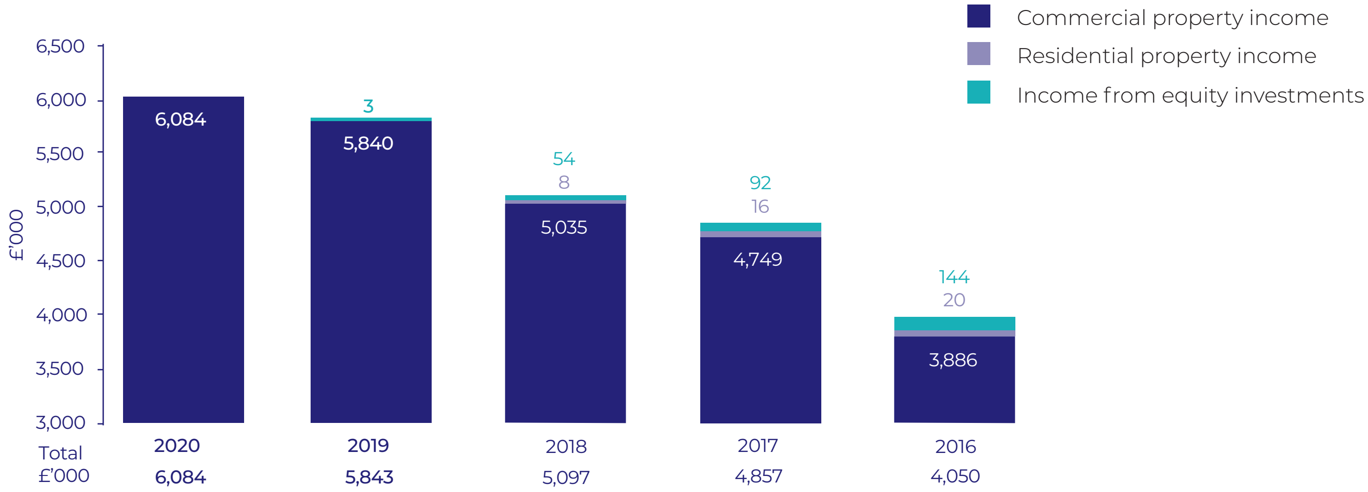
The group has shown resilient performance during 2020, which has been dominated by the COVID-19 pandemic. Gross rental income increased by 4.2% to £6,084,000; however, net rental income was affected by a bad debt provision of £366,000 and reduced by 3.4% to £5,464,000. Our administrative and finance costs also increased in the year, primarily due to the effect of the second year of the Highcroft Incentive Plan and an adjusted accounting treatment for the first year, and the increased costs associated with being a listed company. Our underlying adjusted revenue profit (excluding realised and revaluation gains) has decreased by 14% but notwithstanding this we are proposing an increase in our dividend payable for the year of 6.25% and a special dividend of 6.0p per ordinary share.

Net assets have reduced by 5.9% to £57,121,000 and we have a moderate net debt to property value of 29%. The average cost of debt at the year end is 3.1%, which reduced from 3.5% last year due to the effect of the two loan refinancing activities that took place in 2020, these had an average interest rate of 2.2%. Our investment properties decreased in value by £4,650,000 (5.4% on a like-for-like basis).

We are proposing a final dividend this year of 30p per share, giving a total dividend for 2020 of 51p per share, an increase of 6.25%. Additionally, we are proposing a special dividend of 6p per share for 2020, giving a total dividend increase for 2020 of 18.7%. Since 2009 (our first full accounting year as a REIT), our dividends have risen by a total of 119% – a compound annual increase of 7.4%. In the same period, our net assets per share have increased by 66% from £6.66 to £11.04 per share.

Income

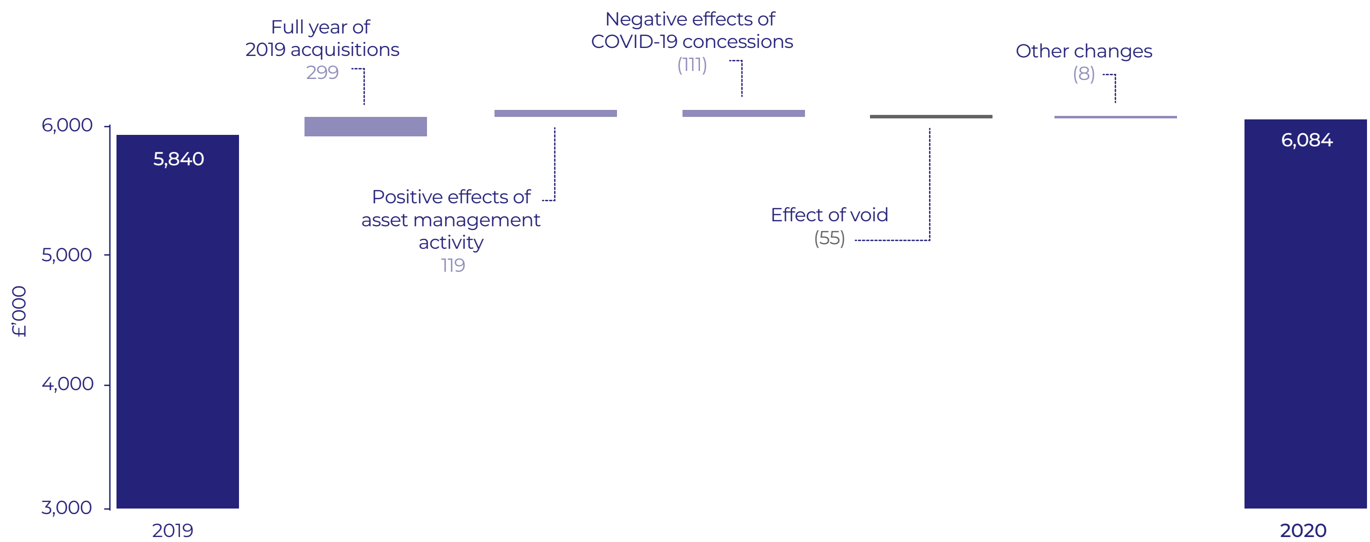
Total income has increased by 4%.



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

	2020 %	2019 %	2018 %	2017 %	2016 %
Increase in gross rental income	**4**	16	6	22	14

The growth in property income is comprised below:



Administration and other expenses

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Directors' remuneration	**801**	597	541	492	451
Auditor's remuneration including other services	**58**	35	32	31	58
Other expenses	**210**	194	163	140	142
Administration expenses	**1,069**	826	736	663	651
Net finance expense	**892**	850	699	649	495
Total expenses	**1,961**	1,676	1,435	1,312	1,146

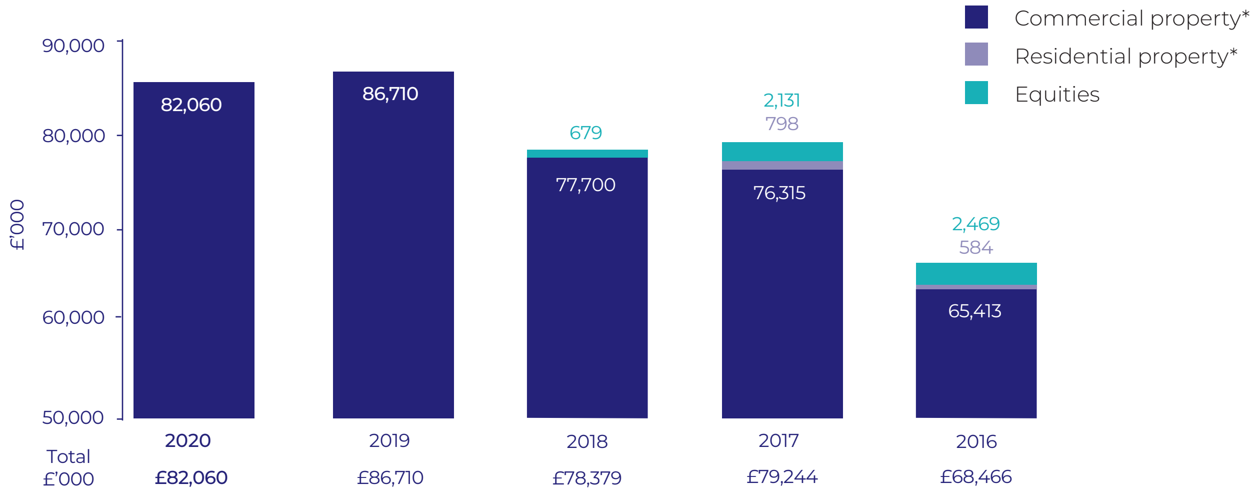
Director's remuneration rose primarily due to two years of the share element of the Highcroft Incentive Plan being expensed in the year (2019 one year). In addition, a change in accounting treatment resulted in a change to the timing of the recognition of cost of the share award. More information can be found in the director's remuneration report on pages 50 to 60. Other expenses have increased as a result of the rising professional costs associated with our status as a premium main marked listed entity. It is likely that these costs will increase significantly in the future due to the governance and regulatory demands facing all listed entities. Net finance expenses increased as a result of a full years cost of the new £6,800,000 borrowing in 2019, net of the interest savings arising from our £4,000,000 loan refinancing and additional £1,000,000 loan drawn in 2020.

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

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Profit before tax	**3,503**	3,983	4,445	3,287	2,840
Income tax credit	–	72	67	61	72
Profit for the year	**3,503**	4,055	4,512	3,348	2,912

The decrease in the revenue profit for the year in 2020 was influenced by a decrease in net rental income of £192,000, a decrease in dividend revenue of £3,000, and an increase in administration expenses of £243,000 and net finance expenses of £42,000.

Investments



* Including assets held for sale classified as current asset investments

Our investments decreased due to revaluation losses.

Summary of property investment activities

During 2020, primarily due to the effect of the COVID-19 pandemic on the marketplace, there were no additions to or disposals of property.

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Acquisitions at cost	–	11,898	5,226	10,086	9,896
Net proceeds from disposals	–	–	(6,090)	(2,259)	(2,972)
Net investment/(divestment) into/(from) the property portfolio	–	11,898	(864)	7,827	6,924

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:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Realised gains on investment property	–	–	967	1	134
Realised losses on investment property	–	–	–	–	–
	–	–	967	1	134
Revaluation gains on investment property	**2,525**	739	2,600	3,365	2,509
Revaluation losses on investment property	**(7,175)**	(3,627)	(2,116)	(77)	(1,536)
	(4,650)	(2,888)	484	3,288	973

Overall, our property portfolio reduced in value during the year by £4,650,000, which represents 5.4% on a like-for-like basis. Our most significant revaluation gains related to two of our warehouse units as a result of successful lease renewals during the year. The most significant revaluation losses were in our leisure, high street retail and retail warehouse assets, where a further move in market sentiment, coupled with the effect of two CVAs and an administration, has resulted in a reduced valuation. The largest individual decrease, representing 35% of the total valuation fall, was at our Ipswich property, where one of the tenants went into administration in the year and, after a short period of occupancy under licence from the administrator, the property has reverted to the administrator. The revaluation movement is summarised by class of asset in the following table.

	Valuation movement £'000	Movement to opening value or cost if later
Warehouse	690	1.9%
Office	(25)	(0.3%)
High street retail	(1,190)	(17.7%)
Leisure	(1,700)	(14.5%)
Retail warehouse	(2,425)	(10.1%)
	(4,650)	(5.4%)

Financing and cashflow

Net cash generated from operating activities was £340,000 lower at £3,220,000. The reduction primarily arose from a number of factors including lower profitability, an increase in trade debtors as tenants take slightly longer to pay their rent, and an increase in accrued rent receivable arising from the IFRS spreading of rent incentives. It is the directors' intention to reinvest surplus cash, that is not required for PID payments into the commercial property portfolio when suitable opportunities arise.

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Opening cash	**1,559**	5,202	1,904	3,369	4,852
Net cash from operating activities	**3,220**	3,560	3,620	3,568	2,909
Investment acquisitions – property	**–**	(11,898)	(5,226)	(10,086)	(9,896)
Investment acquisitions – equities	**–**	–	–	–	(3)
Investment disposals – property	**–**	–	6,090	2,259	2,972
Investment disposals – equities	**–**	724	1,333	477	1,176
Dividend paid	**(2,484)**	(2,829)	(2,519)	(2,183)	(2,041)
Net new bank borrowings	**1,000**	6,800	–	4,500	3,400
Closing cash	**3,295**	1,559	5,202	1,904	3,369

Analysis of borrowing

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Handelsbanken term loans 2030	**5,000**	–	–	–	–
Handelsbanken term loans 2029	**6,800**	6,800	–	–	–
Handelsbanken term loan 2027	**4,500**	4,500	4,500	4,500	–
Handelsbanken term loan 2026	**3,400**	3,400	3,400	3,400	3,400
Handelsbanken term loan 2022	**7,500**	7,500	7,500	7,500	7,500
Handelsbanken term loans 2020	**–**	4,000	4,000	4,000	4,000
Total debt	**27,200**	26,200	19,400	19,400	14,900
Cash	**(3,295)**	(1,559)	(5,202)	(1,904)	(3,369)
Net debt	**23,905**	24,641	14,198	17,496	11,531
Net assets	**57,121**	60,721	62,384	59,977	55,325
Gearing (net of cash)	**42%**	41%	23%	29%	21%

Our average cost of total debt was 3.13% (2019 3.50%).

Outlook

The investment and occupational commercial property markets remain cautious in the current macro economic 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
Finance director
7 April 2021

Our risks

Risk framework

The board has overall responsibility for risk management with a focus on determining the nature and extent of exposure to principal risks the group is willing to take in achieving its strategic objectives. The amount of risk is assessed in the context of the core strengths of our business and the external environment in which we operate. Whilst risk is an integral part of our business, the general appetite of the group for risk is low.

The board believes that effective risk management is integral to our strategy of delivering long-term sustainable income and capital growth.

Strategic risk management reporting

Board of directors

- Overall responsibility for risk management
- Regular review of effectiveness of system of internal control
- Regular assessment of emerging and principal risks

Audit committee

- Assurance of risk management process

Executive committee

- Day-to-day risk management
- Ongoing identification, assessment and mitigation of risk
- Design implementation and evaluation of system of internal control
- Ensuring operational effectiveness of control system

Our approach to risk management is to identify the financial operational and compliance 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 any of these having a material impact. This process is regularly monitored and reviewed.

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 can respond quickly to changes in the risk environment.

The principal risks that have been identified and the management and/or mitigation of these are set out on pages 30 to 31. The board has identified that emerging risks are likely to be linked to our existing principal risks and these are also included as appropriate in the table on pages 30 to 31.

Against the backdrop of economic and political challenges arising from the global COVID-19 pandemic and Brexit, we have continued to actively manage our risk exposure by maintaining a high occupancy across our portfolio and an efficient capital structure and liquidity position.

Risk appetite

Whilst risk is an integral part of our business the general appetite of the group for risk is low.

Changes to our principal risks

The principal risks and uncertainties facing the group in 2020 are set out on pages 30 to 31 together with the mitigating actions and controls in place. We define a principal risk as one that is currently impacting on the group or could impact the group over the next 12 months. These principal risks are not a complete list of all risks facing the group but are a snapshot of the group's risk profile as at the date of this report.

New principal risks or new factors affecting existing principal risks

International trade negotiations affecting the political and regulatory outlook

The full effect of the trade agreement with the EU completed just prior to the end of the transition period on 31 December 2020, and our trade agreements with other countries cannot be fully assessed as the UK was in lockdown at 31 December 2020. Whilst all our properties are in the UK, our tenants operate global businesses with international supply chains and recruitment policies. We are not yet aware of any adverse effect on our tenants that may have an impact on our income.

We have also not seen any reduction in demand for properties arising from the Brexit process.

The ongoing COVID-19 pandemic affecting the macro economic climate

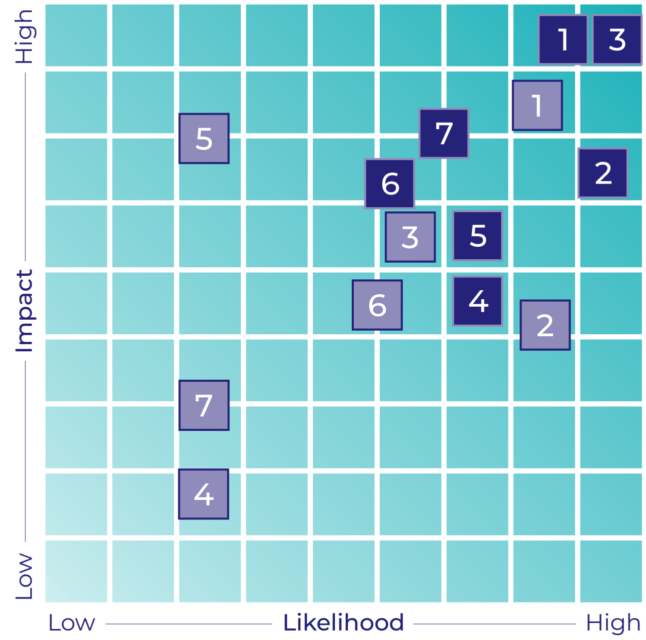
Notwithstanding a very positive start to the vaccine roll-out, there remain key uncertainties regarding the extent and duration of lockdown and social distancing measures that will be imposed in the UK and their effect on our tenants and on our business. During 2020, we had a shortfall of 6% on our rent collections and we have had two tenants go into CVA and one into administration. We have undertaken positive asset management initiatives with some tenants, who were particularly affected by the pandemic, to achieve mutually agreeable outcomes. Our charged property valuations have fallen, albeit less than the market, and we have taken steps to ensure bank covenants are complied with.

The board have established protocols for remote working for itself and its employee. In the search for new premises during the year, the related health and safety issues connected with the virus were taken into account in the selection criteria.

The board continue to pay close attention to the evolving situation and to mitigating the risks for our business and all our stakeholders.

Risk heat map

The risk heat map below illustrates the principal risks that have the potential to significantly impact the group's strategic objectives, financial position or reputation. It highlights net risk, after taking account of principal mitigations.



As at 30 April 2020
As at 7 April 2021

Principle risk key

External risks	Link to strategic objectives
1 Economic outlook	A B E
2 Political and regulatory outlook	A B E
3 Occupier demand and tenant default	A B E
4 Commercial property investor demand	E
5 Availability and cost of finance	D E
Internal risks	
6 Business strategy	A B C D E
7 Key personnel	A B C D E

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 to £5m with no asset representing more than 15% of the portfolio
C	Seek capital growth opportunities within our property asset base
D	Use medium-term gearing at a modest level
E	Provide a dividend increase in excess of inflation

Read more about **our strategy** on pages 18 and 19

Our risks continued

	Principal risk	How we manage/mitigate the risk
	External risks	
1	**Macro economic outlook** The UK economic climate, any further adverse consequences of COVID-19 and future movements in interest rates, present both risks and opportunities in the property and associated financial markets. This could impact the delivery of our planned revenue and capital strategy.	• Monitoring of economic and property industry research by the executive team and review at board meetings and adjustment of strategy as necessary. • Our activities are restricted solely to the UK with no foreign exchange exposure. • Use of advisers as appropriate when considering key transactions. • Ongoing review of tenant, asset and sector profile.
2	**Political and regulatory outlook** The end of the Brexit transition period and the effect of the new trade deals may impact the profitability of our tenants. The ever-increasing regulatory framework for listed companies will increase our cost base.	• We are not able to influence political events and decisions, however, we review and monitor potential scenarios and consider them in our planning process. • We use our advisory team to ensure that the board remain up to date with the evolving regulatory requirements for a listed real estate company. • We have introduced a board portal to enhance our governance systems and procedures.
3	**Occupier demand and tenant default** Any weakening in the UK economy, reduced consumer confidence, business activity and investment could result in tenant administration/CVA and reduce income, rental growth and capital performance.	• We review market data, with our advisers together with industry trends to assess whether any risk mitigating steps need to be taken. • Our strategy is to in invest in the lower risk areas of the south of England and Wales. • Our strategy to invest across different sectors reduces our exposure to an individual sector or tenant. • We maintain close relationships with our tenants and support them through their business cycle. • We review the managing agents rent collection reports regularly and take action where necessary.
4	**Commercial property investor demand** Any drop in, inter alia, the health of the UK economy, or in the availability of finance, or the attractiveness of Sterling, may result in a reduction in investor demand for UK property, which may result in a fall in our asset valuations.	We review market data with our advisers, together with industry trends, to assess whether any risk mitigating steps need to be taken.
5	**Availability and cost of finance and debt covenant requirements** Bank of England monetary policy may result in interest rate rises and future increased costs of borrowing. Reduced availability of appropriately priced finance would affect our ability to refinance and/or increase cost. Breach of debt covenants could trigger loan defaults and repayment of facilities.	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. We monitor our LTV and debt requirements and maintain good long-term relationships with our current and potential financing partners.
	Internal risks	
6	**Business strategy** If the group has the wrong strategy for the current stage of the property cycle and the macro economic climate there will be reduced profitability and capital values.	Our strategy is determined to be consistent with our stated risk appetite and is based on our evaluation of the macro economic environment. Individual investment or divestment decisions are made by the board and subject to a risk evaluation.
7	**Key personnel** A number of critical business processes lie in the hands of a few people. Failure to recruit, develop and retain staff and directors with the right skills and experience may result in significant underperformance or impact the effectiveness of operations and decision making, in turn, impacting business performance.	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. We outsource a number of key routine processes to minimise the risk of business interruption. Succession planning and the composition of the board are regularly reviewed by the nomination committee and the board review the key advisers at least annually. Future recruitment may require the use of a headhunter to source candidates with the appropriate skillset.

Commentary	Change in risk assessment in the year	Link to strategic priority
During 2020, the economic position in the UK worsened significantly due to the pandemic. Whilst inflation and interest rates remain low, there remains a level of uncertainty regarding the future. Our property valuations have fallen as a result of the uncertainty in the marketplace. In 2021, we will continue to carry out our controls, management and mitigation procedures.	▲	A B E
As the Brexit transition period expired on 31 December 2020, there were a number of significant changes introduced including many related to relation to travel and trade. As the UK was in lockdown at this time, we have not yet been able to fully assess the effect that this may have on our tenants, supply chains and recruitment strategies. Listed real estate company compliance requirements continue to increase. In 2021, we will consider strengthening our team by splitting the role of finance director and company secretary and further enhancing our reporting procedures.	▲	A B E
We have 22 properties with 30 tenants and 28 individual covenants. One property became void in the year representing 0.9% of the annual rent roll. Our bad debt provision in the year is £366,000 which represents 6% of gross rental revenue. The weighted average lease expiry is 5.9 years, which provides a reasonable longevity of income. Portfolio occupancy is 99% at the year end, although we expect one unit in a multi-let property to become void in Q2 2021. In 2021, we will continue to carry out our controls with a particular focus on the ongoing impact of COVID-19.	▲	A B E
During 2020, in the light of the uncertainties arising from the global pandemic, coupled with the political issues associated with finalising the transition agreement there were relatively few property transactions. In 2021, we will continue with our current controls and will look to take opportunities to invest or divest at particularly opportune points in the property cycle.	▲	E
During 2020, we refinanced two loans totalling £4m and drew an additional £1m of borrowing. The terms were more favourable than for the maturing loans. Our next loan maturity is in 2022. In 2021, we will carry out our annual review with our current lender and continue to carry out our monitoring procedures.	▼	D E
During 2020, a year dominated by the global pandemic, our capital performance was close to the market and our rent collection was 94%. In 2021, we will hold an annual strategy away day to discuss the group's five-year strategy, monitor our portfolio for further asset management activities and manage the void rate, examine opportunities for acquisitions and disposals to recycle capital, and we will continue to monitor and react to the impact of COVID-19 on our business.	▲	A B C D E
There were no changes during the year. This is the second year of operation of the Highcroft Incentive Plan, designed to enhance the linkage between director remuneration and performance. In 2021, we will consider splitting the role of finance director and company secretary to further reduce risk.	▲	A B C D E

Going concern statement

The directors have made an assessment of the group's ability to continue as a going concern. This includes a review of the current uncertainties created by the COVID-19 pandemic, particularly in respect of rental income, the group's cash resources, borrowing facilities and dividend distributions.

The group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the strategic report. The financial performance of the group for 2020 including its cashflows, liquidity and borrowing facilities are set out in the financial statements with additional information in the financial review on pages 24 to 27. Note 19 to the accounts on page 85 includes information on the group's financial instruments and on its approach to credit and liquidity risk.

At 31 December 2020, the group had £3.3m of cash and cash equivalents and fixed-term, fixed interest, non-amortising borrowing of £27.2m that expires during the period May 2022–July 2030. In addition, there was an undrawn overdraft facility of £1m and additional headroom of £1.8m. The next facility maturity is in May 2022 for £7.5m with no other renewals falling due before August 2026. The group has a modest gearing of 42% and its net debt to investment property valuation is 29%.

Our primary debt covenants relate to interest cover and loan-to-value. They are tested annually, and the LTV covenant is based on the valuations addressed to the bank (which may not be the same as the current valuations). In order to respond to a potential shortfall in the LTV covenant as a result of a reduction in valuation of our secured properties, the group offered additional property as security prior to the year end and the charging has been completed in 2021.

The group has a secure property income stream from 29 occupiers with no undue reliance on any one tenant. The COVID-19 pandemic has, however, resulted in us being unable to quickly relet our unit in Oxford High Street that went void in March 2020, nor have we been able to secure a new tenant for part of our Ipswich property where DW Sports and Fitness Club went into administration in Q3 2020. As we approach the end of lockdown, there are, however, potential new tenants interested in both properties. Based on this experience, the board has carefully reviewed its forecast assumptions regarding potential void periods and lease incentives at break dates and lease ends. In addition, we have two tenants with whom we are in detailed discussion regarding their arrears positions, and one on whom we have taken further action to recover the sums owed to us.

Notwithstanding the impending easing of lockdown restrictions, there remain uncertainties regarding the extent and duration of the social distancing measures that will be required and the impact on our tenants' ability to carry on their normal business and generate cash to pay their rent. We have taken this into account in our sensitivity analyses.

The group's most significant outflows are its PID and bank interest payments, which made up 54% and 20% of the 2020 cashflow respectively. The directors have had discussions with HMRC during 2020 and have agreed mitigating steps such that they will not pay 43% of the 2019 PID pool outstanding at 31 December 2019 and will incur a tax charge on this element. This retains £1.3m of cash in the business and does not prejudice the group's REIT status.

The directors have reviewed the projected cashflows of the group and its compliance with debt covenants. They have also overlaid their best estimates of the impact of the COVID-19 pandemic onto their forecasting and debt covenant reviews and considered scenarios including:

- The pandemic continuing to affect rent collections throughout 2021, affecting cash generation and covenant compliance
- Void properties and those that may become void at lease end and/or break dates remaining void for a longer than usual period thereby reducing income and increasing costs
- The ongoing pandemic affecting property valuations and related debt covenants

The directors have also stress tested the forecasts considering the level of fall in income and valuations that would cause the business to be unable to pay its liabilities as they fall due, and have concluded that the possibility of these scenarios occurring is remote.

The audit committee reviewed the analysis supporting the going concern basis of preparation of the accounts. This review included the forecast 12-month cashflows, loan maturities, headroom on debt covenants, undrawn loan facilities and the quality and parameters of the stress testing. Having completed their review, the committee recommended to the board that it was appropriate to adopt a going concern basis.

The directors are not aware of any material uncertainties that may cast significant doubt upon the group's ability to continue as a going concern. They have considered the audit committee recommendation and concluded that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

Viability statement

In accordance with provision 31 of the 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 one term loan, which represents 28% 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, in conjunction with the audit committee, carried out a robust assessment of the principal risks and uncertainties facing the group including those that would threaten its business model, strategy, future performance, solvency, or liquidity over the five-year period. This review provided the board with assurance that the mitigations and management systems are operating as intended. The board receives regular (at least monthly) briefings from the executive team, which include rent collection data, portfolio updates including issues and tenant discussions, debt covenants and a review of the principal risks and any adverse movements in risk exposure.

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 property capital transactions that are likely to occur.

The board also conducted a sensitivity analysis, taking into account the potential impacts of one, or more, of the group's principal risks, as set out on pages 30 to 31, actually occurring.

Having considered the forecast cashflows, covenant compliance, and the impact of the sensitivities, the directors confirm that 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 to 31 December 2025.

Stakeholder engagement

"Effective stakeholder engagement is embedded into all our activities."

Section 172(1) statement

The board of directors confirm that it has, during the year, acted to promote the long-term success of the company for all of its stakeholders, including its shareholders, whilst having due regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006 being:

(a) the likely consequences of any decision in the long term

(b) the interests of the company's employees

(c) the need to foster the company's business relationships with suppliers, customers and others

(d) the impact of the company's operations on the community and the environment

(e) the desirability of the company maintaining a reputation for high standards of business conduct

(f) the need to act fairly between members of the company.

The nature of our business means that we have a ongoing dialogue with a wide group of stakeholders, as summarised below.

Stakeholder	Why is important to engage?	Ways we engage	Key interests	How do we respond?
Our shareholders	In order to understand the views and aspirations of shareholders as the owners of our business	Direct and indirect shareholder engagement via the annual report, shareholder meetings and calls with our two main shareholder groups. We also seek all shareholders views via our website and at the AGM. Further details on page 44	· Growth strategy and healthy returns whilst meeting our environmental and social responsibilities	Reviewing our strategy on a regular basis to ensure that it is the right one to deliver returns in the long term
Our tenants	In order to have the ability to react swiftly to issues and opportunities and to understand how tenant demands are changing to help us evolve our strategy	We build relationships with tenants, directly if possible, and also via our asset managers	· Tenant satisfaction, with fit-for-purpose spaces that are able to evolve with their business · Ability to meet future tenants' needs	Reviewing our strategy to ensure that it takes into account future demand
Our employees	We value the input and insight that all team members can provide	As we only have one employee outside the board, our engagement is informal	· Wellbeing · Health and safety · Personal development	Informal reviews with the employee by a director who is not her line manager
Our advisory team and other suppliers	In order to have the ability to react swiftly to opportunities and issues To ensure we are aware of emerging trends and risks in the marketplace	Building close relationships, where advisers have a detailed understanding of the business, its purpose, culture, and objectives	· Responsible payment practices · No conflicts of interest · Mutually beneficial relationships, supporting both parties' interests	Key relationships are informally agreed by engagement director periodically
Our local communities and the environment	We wish to ensure that our activities have a positive impact on communities and the environment	Engagement with tenants and local communities to understand their views and concerns and, particularly in 2020, their COVID-19 related issues, either directly or via our asset managers. Charitable donations	· Making a positive contribution to communities and the environment	Quarterly meetings with asset managers that include environmental matters as an agenda item

Corporate social responsibility

Our culture

At Highcroft, 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

Our key stakeholders are our shareholders, tenants, employees, advisory team and other suppliers, and our local communities and the environment. Our engagement with them and their key interests is set out in our stakeholder engagement statement on page 33.

The environment and climate change

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.

Streamlined energy and carbon reporting regulations (SECR)

The nature of our business is such that we fall below the de minimis limit for required reporting under the SECR.

The taskforce on climate-related financial disclosures (TCFD)

In 2020, the FCA has proposed a new listing rule for commercial companies with a UK premium listing, including Highcroft, to state whether they comply with the recommendations of TCFD and explain any non-compliance. Full compliance is expected for reporting periods starting on or after 1 January 2021. We have summarised our compliance to date with the TCFD guidelines below.

Governance

The board is responsible for approving the group's climate change targets and monitoring portfolio performance.

Describe the board's oversight of climate-related risks and opportunities

- Our audit committee, a principal committee of the main Board, will, from 2021, oversee the management of our climate-related risks and opportunities.

Describe management's role in assessing and managing climate-related risks and opportunities.

- Simon Gill, CEO, is the main Board member with overall accountability for climate and sustainability.

Strategy

The board considers climate change as part of its decision making, particularly around acquisitions and refurbishment projects

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

- Short term (0–5 years) – market shift in terms of stricter legislation, such as the introduction in the UK of the new minimum energy efficiency standards (MEES) for commercial and domestic property.
- Medium term (5–10 years) – market demand from occupiers for buildings and spaces with higher levels of efficiency and lower carbon footprints.
- Long term (15+ years) – changing climate conditions in the south east of England and Wales, principally temperature increases and flooding and their potential impact on our buildings.

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

- As a REIT, we invest in, maintain, and manage property in the south of England and Wales and, as such, climate-related issues affect the way we assess new properties for acquisition and how we and our tenants maintain existing ones.

Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

- Physical climate-related risks, such as increasing temperatures, could increase the stresses on our properties and, in turn, increase our cost base and/or make them less attractive to existing or potential tenants. We will continue to consider energy and carbon reduction, ensuring that our buildings operate as efficiently as possible.

Risk management

Potential climate change risks are identified and monitored as part of our wider risk management procedures.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

- Our asset managers report on climate change as part of their quarterly reporting and the CEO considers whether any issues arising from this or other matters are material enough to be considered further. From 2021, this will be included as an agenda item at audit committee meetings.

Metrics and targets

Due to our size and the limited amount of carbon emissions that we are able to influence as a business, we are considering the extent of metrics and targets that will be appropriate for us to adopt.

The environment – energy efficiency actions taken during 2020

During 2020, we have continued to ensure that:

- subject to the limitations imposed by the COVID-19 restrictions, 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 and appropriate actions are taken;
- 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 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;
- steps are taken to reduce the weighted average of the EPCs on the 19 of our 22 properties where we have certificates. In the year, this has improved from 69 to 64, which is a C rating, which is above the national average;
- We continue to adopt a paperless strategy with our shareholders, which has reduced our paper mailings to shareholders by 75% in the last two years; and
- We make recommendations to the landlord of our serviced office for energy savings that could be made.

Fairness and equality

We value the contributions made by all of our employees, including our directors 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. We encourage effective communication with all our stakeholders ensuring that everyone understands our culture and purpose.

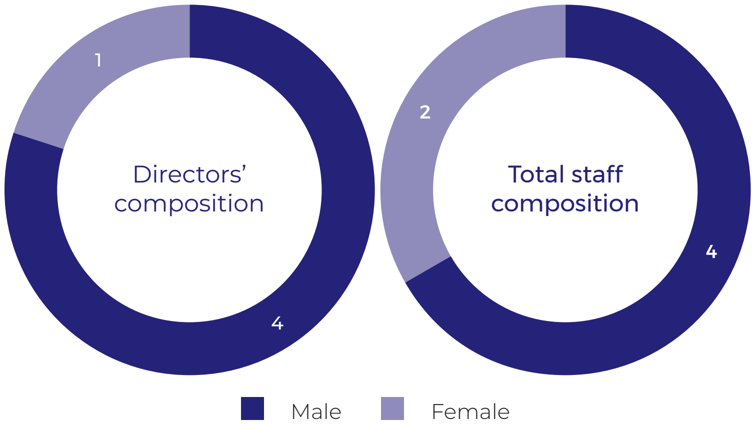
Employee alignment

We align our executive management team with our shareholders via the Highcroft Incentive Plan, which includes a share-based element for those executive directors eligible to participate. More details of the incentive plan can be found on page 53.

Diversity

We believe that a diverse team is an important factor in maximising business effectiveness. We aim to maintain the right blend of skills, experience and knowledge in the board and its advisory teams. The diverse experience of the board is highlighted on pages 40 and 41.

At 31 December 2020, and throughout the year, the average composition of the group's employees was as follows:



Communities we serve

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

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

Charity

During 2020, donations were made to local and national charities totalling £11,000. These charities support the sick, terminally ill and disadvantaged. Examples of our support include:

- Funding three weeks of a national freephone helpline that gives therapeutic advice, support and hope to bereaved children.
- Contributions towards the funding of palliative care in two hospices, in a day centre, in hospitals and at home.
- Funding towards the support of those with learning disabilities in the local community to help them to live life to the full.
- Contributions towards national campaigns for support of those who suffer from abuse, neglect, autism and heart disease.

Future focus

In 2021, we will continue to conduct our business in an ethical and responsible manner. Highcroft will endeavour to find the correct balance between regulation, cost, and the absolute impact of any changes that it is able to influence.

This strategic report on pages 12 to 35 was approved by the board and signed on its behalf

Simon Gill
Chief executive
7 April 2021

OUR GOVERNANCE

Chairman's introduction to corporate governance

> "The board believes that good corporate governance helps to ensure that the board is making effective decisions, based on the right information, to achieve our strategic objectives."

Charles Butler
Chairman

Board and committee attendance for the year ended 31 December 2020

100%

Female representation on our board

20%

Independent directors (including chairman)

40%

Key governance activities in 2020

The board's key governance activities during the year have included:

- the 2020 annual general meeting (AGM);
- the introduction of a board portal to facilitate the governance processes around board meetings and information sharing;
- evaluation of the board; and
- review of the issues associated with David Kingerlee's change of status to shareholder representative.

Dear shareholder,

Welcome to the corporate governance section of the group's annual report. Whilst Highcroft is a relatively small premium listed group, good corporate governance remains one of our core values and the board strives to follow the appropriate guidance and rules. The board believes that good corporate governance helps to ensure proper oversight by the board and to ensure that the board is making effective decisions, based on the right information, to achieve our strategic objectives. Governance underpins the way in which the group is managed, our behaviour and culture.

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.

We are reporting against the 2018 UK Corporate Governance Code (the Code) available at www.frc.org.uk. The Code contains a 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. More detail is on page 39. Highcroft is compliant with the Code other than in the areas listed on page 39. These non-compliances relate to the size of the board and employee base. The board has concluded that compliance would outweigh any potential benefits given the size and lack of complexity of the group. The board will continue to review compliance with the Code, and with evolving best practice at least annually.

Our strategy is set out on pages 18 to 19. All the board 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 were unable to hold a face-to-face AGM in 2020 due to COVID-19 restrictions, however, we set up a dedicated email address for any shareholder wishing to raise questions and encouraged shareholders to appoint the chairman of the meeting as their proxy to ensure that the shareholders' votes would be counted. We look forward to welcoming many of our shareholders to our 2021 AGM, subject to any COVID-19 restrictions in force at the time.

This governance report on pages 36 to 63 sets out in more detail our compliance with the Code during the year and explains governance structure. All members of the board support the principles of good corporate governance, and believe that we complied with the principles and provisions of the Code as was appropriate throughout the year, and have explained any non-compliances and our explanations for these.

Changes in the year

As explained further on page 41, on 10 December 2020, David Kingerlee changed his status to that of a shareholder representative of Kingerlee Holdings Limited and its subsidiary undertakings. As a result, the board, on 1 February 2021, agreed that, with effect from 10 December 2020 Highcroft, effectively, became an associated undertaking of Kingerlee Holdings Limited. As a further consequence it has been agreed that, with effect from the date of this report, David Kingerlee will change his status from an executive director to that of a non-independent, non-executive director.

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

Our governance section evidences our compliance with Principles (A to R) of the Code and illustrates how we have applied the Code principles and complied with the provisions.

Section	Description	Further information
1. Board leadership and company purpose	A. Effective board B. Purposes, values and culture C. Governance framework and board resources D. Stakeholder engagement E. Workforce polices and practices	You can read about the **board's effectiveness** on pages 40 to 42 You can read about **our purpose values and culture** on page 17 Learn more about **our governance framework and board resources** on page 43 Learn more about **our engagement with stakeholders** on page 33 Learn more about **our workforce policies and practices** on page 43
2. Division of responsibilities	F. Board roles G. Independence H. External commitments and conflicts of interest I. Key activities of the board in 2020	You can read about the **division of responsibilities** on page 43 Learn more about the **board independence** on pages 40 to 41 You can read about the **board's other roles** on pages 40 to 41 Learn more about the **board's key governance activities** on page 43
3. Composition, succession and evaluation	J. Appointments to the board K. Board skills, experience and knowledge L. Annual board evaluation	You can read about the **work of the nomination committee** on page 49 Learn more about **our board** on pages 40 to 41 You can read about the **board's evaluation process** on page 44
4. Audit, risk and internal control	M. Financial reporting external auditor and internal audit N. Review of the 2020 annual report O. Internal financial controls Risk management	You can read about **our audit process** on pages 47 to 48 Learn more about the **our review of the annual report** on page 47 You can read more about our approach to **risk management** on page 48
5. Remuneration	P. Linking remuneration with purpose and strategy Q. Remuneration policy R. Performance outcomes in 2020 Strategic targets	You can read about **the Highcroft Incentive Plan** on page 53 Read more on **our remuneration policy** on pages 52 to 53 You can read about the **board's effectiveness** on pages 56 to 57

The board still recognises that, due to the size of its board and the fact that there is only one non-board employee, the group is non-compliant with five of the 41 Code provisions as outlined below. The board has agreed that the risks of non-compliance are not significant and that the costs of compliance would outweigh any potential benefits. The board will review compliance with the Code and evolving best practice, at least annually.

New Code provision	Detail	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
24	Audit committee – the chairman of the board should not be a member		
32	Before appointment as chair of 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 had the necessary experience to assume the role of committee chair	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	Share awards should have a total vesting and holding period of five years or more	Amend Incentive Plan and/or remuneration policy	This will be considered further in the next policy review in 2022
41	There should be engagement by the workforce by remuneration committee	None appropriate	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

Board of directors

Board leadership and company purpose

Effective board

Our board is composed of highly skilled professionals who bring a range of skills, perspective and corporate experience to our boardroom.

Charles Butler
Non-executive chairman

Appointment to the board

Charles joined the group as non-executive chairman in January 2018.

Committee membership

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

Other appointments

Charles holds the following appointments:

- non-executive chairman of Mysale Group PLC, an international online retailer;
- non-executive director of Essensys plc, a global provider of SaaS platforms and on-demand cloud services to the flexible workspace industry; and
- executive director of 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, prior to joining the board, was the CEO of Market Tech Holdings PLC, 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

Simon is currently the interim finance director of the Royal Agricultural University, Cirencester, where his remit includes overseeing all the financial and related operations of the university.

Previous experience/ brings to the board

Simon was formerly 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.

Prior to that, he was an investment banker specialising in global M&A activities, and then for nine years he ran his own property company. In these roles, he advised US and UK public and private corporations on financial and related matters, and owned a modest property portfolio. Simon's breadth of experience provides the board with a greater range of market knowledge and skills, which are particularly relevant to a company in Highcroft's position.

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
to 7 April 2021 and then non-independent non-executive director

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

Committee membership
Executive committee to 7 April 2021.

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 has a long-term knowledge of the group. On 10 December 2020, David notified that board that he would be changing his role to that of a shareholder representative representing the interests of Kingerlee Holdings Limited with immediate effect. Consequently, with effect from the date of this report, David has changed his status to that of non-independent non-executive director. In this role, he will not sit on any board committees.

Roberta Miles
Finance director and company secretary

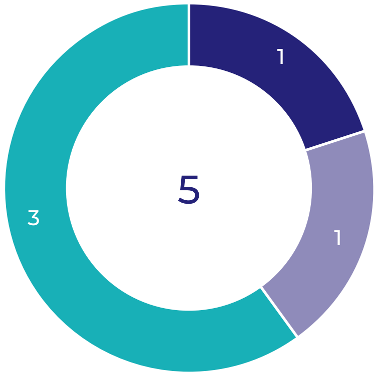
Appointment to the board
Roberta joined the group in April 2010 and was appointed to the board as finance director and company secretary in July 2010.

Committee membership
Executive committee.

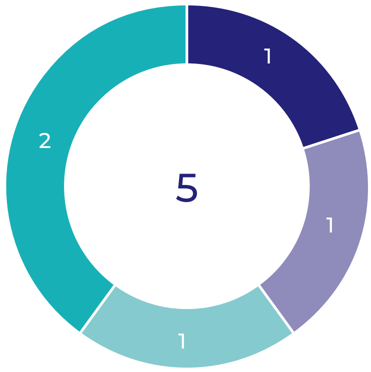
Other appointments
Roberta acts as company secretary or chief financial officer for a number of companies. She is currently a director of Mechadyne International Limited and MCD Ventures Limited.

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.

Membership of the board – 1 January to 10 December 2020



Membership of the board – at the date of this report



Experience of the board

Corporate governance

Governance framework

More detail can be found below and on page 44.

The board

The board has overall responsibility for the group. It has delegated authority to the following committees and there are terms of reference of these committees are available on the group's website www.highcroftplc.com.

Chairman: Charles Butler

Comprised: Three executive and two non-executive directors*

Role: The board is responsible to the shareholders for the long-term strategy, control and leadership of the group

Board committees

Executive committee	Audit committee	Remuneration committee	Nomination committee
Chair: Simon Gill	**Chair:** Simon Costa	**Chair:** Simon Costa	**Chair:** Charles Butler
This committee is comprised of the executive directors and chaired by the chief executive. **Roles:** Implementation of strategy and policies, day-to-day decision making and administration of the group.	This committee is comprised of the non-executive directors. 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. **Roles:** Financial reporting, monitor risk management and internal control, monitor external.	This committee is comprised of the non-executive directors. **Roles:** Remuneration policy, setting of directors' remuneration packages, agreeing incentive plan targets and outcomes.	This committee is comprised of the non-executive directors. **Roles:** Recommends board appointments, succession planning, reviewing board composition, skills and diversity, performance evaluation.

*With effect from the date of this report, David Kingerlee changes his role from executive to non-executive director.

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 sub-committees and conducts an annual evaluation of the board.

Each of the directors has committed to attend all scheduled and relevant committee meetings. If a director cannot, for unseen circumstances, attend a meeting, they will be provided with the papers in advance of the meeting as usual and can discuss them with the chairman or chief executive and provide comments. Attendance at the committee meetings is shown in the respective committee reports. Attendance at board meetings is shown below:

	Attendance
Charles Butler	9/9
Simon Costa	9/9
Simon Gill	9/9
David Kingerlee	9/9
Roberta Miles	9/9

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.

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.

Division of responsibilities

Chairman: Charles Butler

- Leads of the board ensuring its operates effectively and in accordance with good governance.
- Sets board agenda for meetings and ensures that adequate, accurate, clear board information is circulated in a timely manner, that all matters are discussed properly and promotes a culture that encourages constructive open debate on all key issues.

Charles Butler was considered to be independent upon appointment and is considered, by the board, to have remained independent throughout the year.

Chief executive

There is a clear division of responsibilities between the chairman and the chief executive.

- Oversees the day-to-day running of the group's business including the development and implementation of the board's agreed strategy.
- Leads the executive team.

Company secretary

- Provides advice and assistance to the board, chairman and other directors.
- Supports the chairman with the development of agenda for board meetings and provision of information to the board.
- Advises the board on corporate governance developments.

Independent non-executive director: Simon Costa

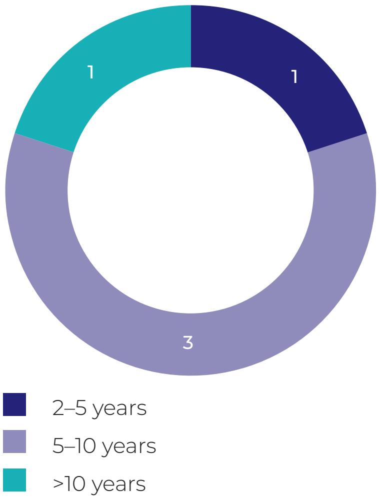
- Brings an external perspective, independent judgement and objectivity to the board's deliberations and decision making.
- Drawing on their extensive experience and knowledge, they act as both a sounding board and as objective, constructive scrutinisers and challengers to the executive board.
- Help facilitate the strategic decision making process and the monitoring of the performance of the executive management in achieving the agreed strategy and objectives.

Senior independent director: Simon Costa

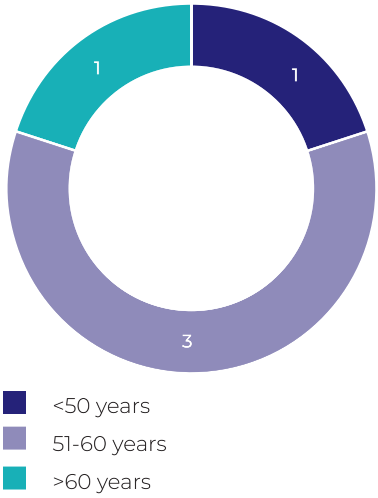
- Provides a sounding board for the chairman and serves as an intermediary for other directors when necessary.
- Available to discuss concerns with shareholders that cannot be resolved by the normal channels of communication with the chairman or chief executive.

On 10 December 2020, David Kingerlee informed the board that he would, with immediate effect, be representing the views of Kingerlee Holdings Limited. As a consequence, with effect from the date of this report, David has changed his status from executive director to non-independent non-executive director.

Board tenure



Age of the board



Read more about the **nomination commitee** on page 49

Corporate governance continued

Governance framework and board resources

Corporate governance is essential to ensuring our business is run in the right way for the benefit of all of our stakeholders.

Our governance framework, on page 42, was established to provide clear lines of accountability and responsibility. It also

assists with the sharing of information and facilitates fast decision making and effective oversight. Our governance arrangements support the development and delivery of strategy by ensuring accountability and responsibility, facilitating the sharing of information to inform decisions, enabling engagement with key stakeholders, maintaining a sound system of risk oversight, management and internal controls, providing independent insight and knowledge from the non-executive directors; and facilitating the development and monitoring of key performance indicators.

The Directors utilise an electronic board portal, which provides immediate and secure access to current and past papers. The chairman of the board and the chairs of the committees set the agendas for upcoming meetings with support from the company secretary.

Workforce policies and practice

Since there are only five directors and one employee, our policies are informal. Everyone is aware of the group's purpose and understand its values. We require all directors to notify the company if there is a situation that could give rise to a conflict or potential conflict of interest, and we ensure that our independent non-executive directors remain independent of executive management and free from any business relationship that might materially interfere with exercise of their judgement.

Board evaluation

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 2019, the board conducted a self-performance evaluation by way of a questionnaire designed to assess the strength of the board and its committees, and also to identify areas for improvement. This process was led by the chairman and the results were discussed by the board. The board considered itself to be generally effective in all the key areas identified in the questionnaire. These areas included contribution to results and achievement of strategic objectives, management controls and risk, operating styles and methods and shareholder relationships.

Relations with shareholders

The board values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The chairman and other directors are available to meet shareholders if required. The AGM provides a forum, both formal and informal, for shareholders to meet and discuss relevant matters with all the directors. Documents are sent to shareholders at least 23 clear days before the meeting. Separate resolutions are proposed on each substantial issue so that they can be given proper consideration, and there is a resolution to receive and consider the annual report and financial statements, and the directors' remuneration report. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution. 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 62.

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

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

Directors powers at the year end

At the 2019 AGM, the directors were given powers, as follows:

- To allot new shares, or to grant rights to subscribe for or convert any security into shares of the company for the purpose of the satisfaction of awards granted under the Highcroft Incentive Plan up to an aggregate nominal amount of £64,591; and
- To allot equity securities for cash on a non-pre-emptive basis up to an aggregate nominal amount of £64,591.

During 2020 new ordinary shares with a nominal amount of £1,984 were allotted under these authorities in satisfaction of the 2019 awards under the Highcroft Incentive Plan leaving £62,607 of authorities remaining.

Report of the audit committee

Audit, risk and internal control

“We monitor the quality and integrity of the financial reporting and the valuation process, and focus on the risks affecting the group.”

Simon Costa
Chairman of the audit committee

Main responsibilities

- **Risk management and internal controls** – reviewing the system of internal controls and risk management.
- **Financial reporting** – monitoring the integrity of the company’s financial statements and any formal announcements relating to financial performance, and considering significant financial reporting issues, judgements and estimates.
- **Property valuations** – considering the process and outcome and the effectiveness and independence of the external valuer.
- **External audit** – oversight and remuneration of the external auditor, and review of the policy for non-audit services provided by the external auditor.

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 and attendance at meetings

There have been no changes to the membership of the committee during the year. The committee continues to be composed solely of the independent chairman of the board and the independent non-executive director. The board is satisfied that they both have sufficient financial experience, business acumen and real estate sector experience to carry out their duties effectively. Their attendance at committee meetings is set out below:

Director	Committee position	Attendance
Simon Costa	Chairman	4/4
Charles Butler	Member	4/4

The committee meets regularly during the year, in line with the financial reporting timetable and, in 2020, met four 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 addition to the three main meetings, there were also several informal meetings, and general discussions between the committee members and, at times, the finance director and/or the auditor during the initial peak of the COVID-19 pandemic, and also as a result of David Kingerlee’s announcement regarding his change of status to that of a shareholder representative.

The terms of reference were reviewed during the year and are available on the group’s website at highcroftplc.com.

Report of the audit committee continued

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 paid particular attention to those matters that were considered to be important to the group due to their subjectivity, the level of judgement involved or their effect on the financial statements.

In 2020, 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 external valuers carry out a valuation every year at 30 June and 31 December. They also provide an overview of the UK property market and the detailed performance of the group's assets. The valuer attended a meeting with the board and the auditor after the year end, where the agenda included 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. It also included a commentary on the relevant qualifications of the valuer and on their independence. It noted that the fee for the recurring valuation work was £18,000 and for other advisory work including valuation fees for lenders was £16,000 (2019 £18,000 and £22,000). 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 external valuer and the valuation disclosures included in the annual report.
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 including the 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 consider the controls in place to ensure compliance with REIT tests. In particular, they review the compliance with the distribution requirement and the impact of forecasted results and trends on this criterion. They also review the non-close company status requirement.	The committee concluded that the group's REIT status had been maintained during the year.
Going concern statement	If this basis was inappropriate then there could be material misstatements in the financial statements.	The committee reviewed the analysis supporting the going concern basis of preparation, particularly in the light of the ongoing COVID-19 pandemic 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. The going concern statement is set out on page 32.

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
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 five 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 sensitivies identified and stress tested and whether they were the most appropriate.	The committee concluded that the statement had been drawn up on a reasonable basis and agreed with its assessment. The viability statement, together with further details on the assessment undertaken, is on page 32.
Impact of COVID-19	The potential impacts of the COVID-19 pandemic on the assessment of the group's principal risks and uncertainties, risk appetite and viability statement may have not been fully considered, affecting the results and conclusions that were drawn from them.	A detailed analysis of the impacts of COVID-19 on the group's risk framework is included within the risk review on pages 28 to 32.	The committee concluded that the potential impacts of COVID-19 had been appropriately considered.

As a result of David Kingerlee's announcement to the board, on 10 December 2020, that he would, in future, be representing the interests of Kingerlee Holdings Limited, the committee considered the issue of whether or not Highcroft should, in the future, consider itself to be an associated undertaking of Kingerlee Holdings Limited. The committee and board consulted extensively with its advisers on this matter. On 1 February 2021, the audit committee and board agreed that, as a result of Kingerlee Holdings Limited's indirect 27% holding in Highcroft, its place in the wider Kingerlee Concert Party, and David Kingerlee's new status, Highcroft was, with effect from 10 December 2020, an associated undertaking of Kingerlee Holdings Limited. The impact of this is that Highcroft's external auditors, Mazars, have to carry out additional audit work for 2020 as a result of a lower materiality level being imposed by the group auditor, the requirement for a group audit questionnaire, and additional risk. Highcroft has received an indemnity from Kingerlee Holdings Limited to pay, each year, any additional fees that relate to the impact of this change.

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 as regards the financial statements are described on page 63, and that of the auditor on pages 69 and 70.

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 were appointed as auditors 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 £48,000. The group's audit partner is Stephen Eames who has been in role since Mazars were appointed. The committee will ensure that rotation of 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, risk of revenue misstatement due to the inclusion of fraudulent transactions and areas of accounting capable of manipulation). This plan was updated after the decision regarding Highcroft's status as a subsidiary undertaking of Kingerlee Holdings Limited and presented to the audit committee for approval. The directors are satisfied that the risks identified by the auditors are consistent with those identified internally.

At each audit committee meeting, the committee reserves time for a meeting without executive management being present. We discuss matters including the quality of the information provided to the auditor by the executives, confirmation that the auditor has not been restricted in their audit process and a discussion of any areas where they have had to use their professional scepticism.

Report of the audit committee continued

The audit committee reviews the appointment of the external auditor on an annual basis, reviews their objectivity, effectiveness, independence and remuneration. As part of this review, Mazars provide the committee with an annual report on its integrity, objectivity and independence and on the policies and procedures that they have in place to ensure this. 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' reappointment be put to shareholders at the 2020 AGM.

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 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
- Annual review of compliance with the Code.

More detail regarding our management of risk within our strategic framework is set out on page 28.

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 committee 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 work of the external auditor provides an element of comfort that controls are operating as intended and the executive team review the operation of the group's policies and procedures. The committee is mindful of the need to ensure a sufficiently robust evaluation of the group's risk management and internal control systems is undertaken. In the absence of an internal audit function, it will keep the arrangements for achieving internal assurance under review, at least annually, and endeavour to improve this.

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

Simon Costa
Chairman of the audit committee
7 April 2021

Report of the nomination committee

Composition, succession and evaluation

> “The committee keeps the structure and composition of the Board under regular review to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership.”

Charles Butler
Chairman of the board and of the nomination committee

Main responsibilities

In line with the authority delegated by the board, the nomination committee has the following main responsibilities:

- **Board appointments –** leads the process for board appointments, ensures plans are in place for orderly succession to the board.
- **Board composition –** reviews the structure, size and composition of the Board and its committees, recommending to the Board any new appointees and the reappointment of existing directors and committee members.
- **Board diversity –** ensures there is a balance of skills, knowledge, experience, and diversity on the board.
- **Board evaluation –** oversees a formal and rigorous annual evaluation of the Board, its committees, and directors.

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

Composition of the committee and attendance at meetings

There have been no changes to the membership of the committee during the year. The committee continues to be composed solely of the independent chairman of the board and the independent non-executive director, their attendance at committee meetings is set out below:

Director	Committee position	Attendance
Charles Butler	Chairman	1/1
Simon Costa	Member	1/1

If this committee is dealing with the successor to the chairmanship it would be chaired by another non-executive director and may involve an external consultant.

Activities of the committee

Change of status

During the year, on 10 December 2020, David Kingerlee informed the board that he would, in future, be representing the views of Kingerlee Holdings Limited. The committee have considered the impact of this statement, taken advice and, after the year-end, recommended to the board that, with effect from the date of this report, David Kingerlee changed his status from an executive director to a non-independent non-executive director. This was agreed by the board and David Kingerlee on 25 March 2021. There have been no other changes to the composition of the board during the year. The committee further recommended that no additional executive director needed to be appointed.

Succession planning

The committee recognises that succession planning is a key part of its remit. It recognises the importance of creating succession plans for the board so that they can fulfil the group’s long-term strategy. The committee started to consider, during 2020, the potential need to split the role of finance director and company secretary due to both the significant increase in governance and financial reporting requirements, and also to minimise the risk from these two roles being carried out by one person. David Kingerlee’s change of status has heightened our governance risks and this topic will be a key area of focus for 2021.

Our plans are reviewed regularly in the light of the skills and experience that are required both now and in the medium term, in a rapidly changing environment to ensure that board members have the skills and experience necessary to ensure the continuing success and good governance of the group.

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 carry out an evaluation exercise each year. The committee concludes on 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 has a culture that 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 based on 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
7 April 2021

Directors' remuneration report

Remuneration

"The objective of the group's remuneration policy is to embed a clear remuneration structure, which helps drive strategy by properly rewarding performance."

Simon Costa
Chairman of the remuneration committee

Main responsibilities

In line with the authority delegated by the board, the remuneration committee has the following main responsibilities:

- **Remuneration policy –** sets the company's remuneration policy and ensures that it is effectively implemented.
- **Terms and conditions of employment for executive directors –** is responsible for determining remuneration terms and conditions of employment for the executive directors ensuring that they are appropriately incentivised to enhance the group's performance and are rewarded for their contribution to the success of the business by designing, monitoring, and assessing incentive arrangements, and assessing performance and outcomes against them.
- **Dialogue with shareholders –** maintains an active dialogue with shareholders, ensuring their views are sought and considered when setting remuneration policy.

Annual statement

Introduction

I am pleased to introduce the remuneration report for the year ended 31 December 2020. This report comprises three sections:

- This annual statement;
- The summary of directors' remuneration policy; and
- The annual report on remuneration for the year.

This report describes the second year of the application of the remuneration policy incorporating the Highcroft Incentive Plan and explains the committee's intentions for 2021.

Membership of the committee

There have been no changes to the membership of the committee during the year. The committee continues to be comprised solely of the independent chairman of the board and the independent non-executive director, and meets at least three times per year, together with ad-hoc meetings when required. The attendance at committee meetings during the year is set out below:

Director	Committee position	Attendance
Simon Costa	Chairman	4/4
Charles Butler	Member	4/4

The board considered our independence during the year 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.

Major decisions made during the year

During the year the remuneration committee met to:

- Ensure that the Highcroft Incentive Plan continues to add rigour and transparency to the determination of awards while also rewarding both the delivery of returns to shareholders and sustained long-term performance in line with the requirements of the Code;
- Agree the incentive plan criteria and awards for executive directors for 2020; and
- Begin the review the level of directors' fees for 2021. The directors' salaries were informally benchmarked against the external market and changes for all directors were proposed and confirmed after the year end.

Advisers

The committee did not appoint any external advisers to carry out any work during 2020.

Remuneration at a glance

Remuneration philosophy

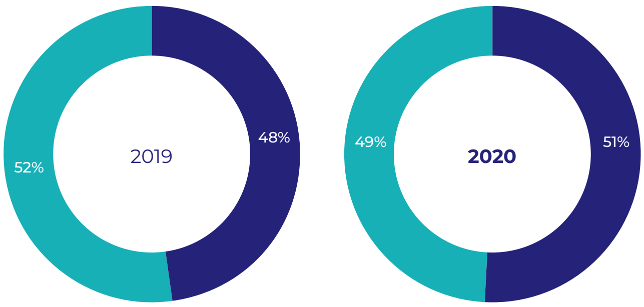
The board's stated objective is to enhance shareholder value through a combination of increasing asset value, profits and dividends. In order to achieve this objective, the board must focus its efforts on the strategic priorities that it believes will maximise the likelihood of success. The committee welcomes engagement with shareholders and welcomes feedback on the form and content of this report.

Remuneration strategy

The current remuneration policy was approved by the shareholders at the 2019 AGM, it was not changed in 2020, and it is not proposed that any significant changes are made in 2021. During the coming year, our task will be to review the remuneration policy to ensure that it is effective in supporting our strategy.

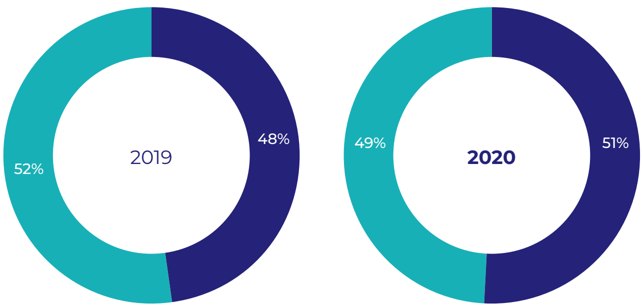
Executive director total remuneration

Simon Gill



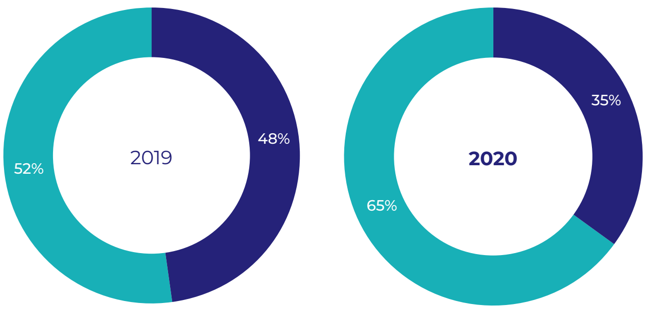
	2019	2020
Fixed	52%	43%
Base salary	52%	42%
Pension and other benefits	–	1%
Performance-linked	48%	57%
Highcroft Incentive Plan – cash	42%	34%
Highcroft Incentive Plan – share award	6%	23%

Roberta Miles



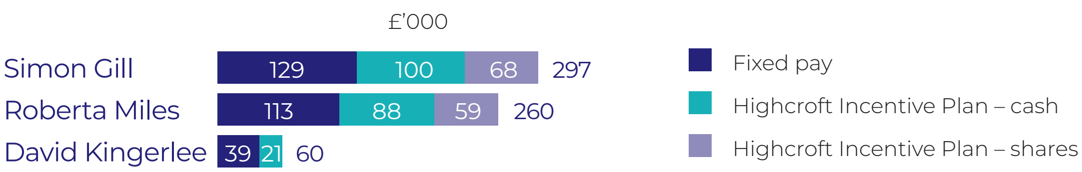
	2019	2020
Fixed	53%	43%
Base salary	51%	42%
Pension and other benefits	2%	1%
Performance-linked	47%	57%
Highcroft Incentive Plan – cash	41%	34%
Highcroft Incentive Plan – share award	6%	23%

David Kingerlee



	2019	2020
Fixed	61%	65%
Base salary	60%	63%
Pension and other benefits	1%	2%
Performance-linked	39%	35%
Highcroft Incentive Plan – cash	39%	35%
Highcroft Incentive Plan – share award	–	–

Single total figure of remuneration for executive directors for year ended 31 December 2020



Remuneration at a glance continued

Summary of directors' remuneration policy

The objective of the group's remuneration policy is to embed a clear, transparent remuneration structure, which helps drive the group's strategy by properly rewarding performance.

This section of the report summarises the group's remuneration policy, which was approved by shareholders at the 2019 AGM. An ordinary resolution to approve this, or any updated policy, will be put to shareholders at least every three years. The policy is available on the group's website www.highcroftplc.com.

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. The group may pay a non-pensionable cash sum in lieu of pension contributions.	Not 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

Element	Purpose	Link to strategy	Operation	Maximum	Performance target
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.	Annual cash award 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 believe that the formulaic outcome is not a fair and accurate reflection of business performance
			For executive directors other than David Kingerlee: The cash element 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 that 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 the 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 relevant expenses incurred are reimbursed.	Not set	N/A

The committee addressed the following factors when determining the remuneration policy and practices, as recommended by the Code.

Code principles	How the committee has addressed these
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The committee is satisfied that the remuneration arrangements in the new policy are transparent, comprising simple incentive structures that are commonplace in the market and best practice remuneration provisions. Key shareholders were consulted when the remuneration policy was adopted. Our one employee is aware of the policy.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The components of our remuneration policy are straightforward and are simple to operate and communicate.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The range of performance outcomes is looked at carefully when setting performance target ranges. Discretion is used where the outcomes lead to an inappropriate pay outcome. The deferred share element of the Highcroft Incentive Plan, the shareholding requirement and clawback and malus provisions all help to mitigate risk.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. There is the ability to override a formulaic driven outcome of incentive plans to minimise the likelihood of a poor link between reward and performance.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	The incentive plan is determined based on a proportion of base salary, and is capped, so there is a sensible balance between fixed pay and performance linked elements.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The committee ensure that the Highcroft Incentive Plan criteria are consistent with the company purpose and values, and that the performance measures are linked to the business strategy.

Recruitment policy

The remuneration committee's approach to recruitment remuneration is to apply the same structure as described in the 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 no more than 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 buyouts 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 plan. To the extent that it is not possible or practical to provide the buyout within the terms of the company's existing incentive plan, 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 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.

Illustration of policy

The tables below illustrate the remuneration opportunity provided to each executive director in line with different levels of performance for 2021.

Simon Gill
Chief executive

	Salary, benefits and pension	Highcroft Incentive Plan	Total
Maximum	34%	66%	£386,000
On target	45%	55%	£291,000
Minimum	100%		£131,000

Roberta Miles
Finance director

	Salary, benefits and pension	Highcroft Incentive Plan	Total
Maximum	34%	66%	£341,000
On target	45%	55%	£257,000
Minimum	100%		£116,000

David Kingerlee
Executive director* (to 7 April 2021)

	Salary, benefits and pension	Highcroft Incentive Plan	Total
Maximum	51%	49%	£19,000
On target	62%	38%	£16,000
Minimum	100%		£10,000

Salary, benefits and pension — Highcroft Incentive Plan

* David Kingerlee becomes a non-executive director with effect from the date of this report

On target performance
Comprising base salary, pension allowances and an incentive plan payment at 62.5% of the maximum opportunity.

Maximum performance
Comprising base salary, pension allowances and an incentive plan payment at 100% of the maximum opportunity.

Minimum performance
Comprising the minimum remuneration receivable being base salary and pension allowances.

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 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 appropriate 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.

Audit

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 66 to 70.

Directors' contracts

A summary of the directors' contracts is set out below:

Non-executive directors	Date of appointment as director	Effective date of current appointment letter	Expiry of term	Notice period
Charles Butler	2 January 2018	2 January 2021	1 January 2024	Six months
Simon Costa	15 May 2015	15 May 2021	14 May 2024	Six months

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

* With effect from the date of this annual report, David Kingerlee has changed his status from an executive director to a non-independent non-executive director, and his contractual arrangements are now governed by an appointment letter with an effective date of 7 April with a term expiring on 6 April 2024.

Annual report on remuneration for the year

Relative importance of spend on pay

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

	2020 £'000	2019 £'000	2018 £'000
Directors' remuneration	703	534	483
Increase in director's remuneration*	31.6%	10.4%	9.9%
Distributions paid to shareholders	2,484	2,829	2,519
Directors' remuneration as a % of distributions paid to shareholders	28.3%	18.9%	19.2%
Cash element of directors' remuneration as a % of distributions paid to shareholders	8.4%	6.7%	7.7%

* In 2020 the accounting treatment for the PAYE/NI on the share award was altered – see page 57 for more details.

Directors remuneration 2020 (audited)

	2020					2019				
			Incentive plan					Incentive plan		
	Base salary £	Pension £	Cash award £	Share award* £	Total £	Base salary £	Pension £	Cash award £	Share award* £	Total £
Charles Butler	49,000	–	–	–	49,000	40,000	–	–	–	40,000
Simon Costa	37,000	–	–	–	37,000	31,500	–	–	–	31,500
Simon Gill	125,000	3,750	100,000	68,171	296,921	113,500	–	90,800	12,801	217,101
David Kingerlee	38,000	1,125	20,944	–	60,069	36,000	672	22,950	–	59,622
Roberta Miles	110,000	3,300	88,000	58,983	260,283	95,500	2,865	76,400	10,771	185,536
	359,000	8,175	208,944	127,154	703,273	316,500	3,537	190,150	23,572	533,759

* Element relating to the financial year including, where appropriate, the proportion of previous year's award expensed in financial year. In 2020 the accounting treatment for the PAYE/NI on the share award was altered – see page 57 for more details.

Simon Gill opted out of receiving pension contributions in 2019.

Highcroft Incentive Plan 2020

The maximum opportunity under the Highcroft Incentive Plan for 2020 was 200% of salary for Simon Gill and Roberta Miles and 100% of salary for David Kingerlee.

The original 2020 award was based on four performance measures. Due to the COVID-19 pandemic and its impact on our dividend policy during the year the committee decided to use the discretion available to it and change the EPS growth performance measure to one of adjusted EPS performance versus the market. The adjusted EPS performance was also adjusted for the change in accounting treatment of the Highcroft Incentive Plan during the year. The committee also replaced the performance measures for NAV per share growth and EPS performance to ones related to the weighted performance of the relevant MSCI annual index as being an appropriate relevant market index. The relative weighting, thresholds and outcomes together with the 2020 outcome for the individual directors is tabulated on the following page.

Performance measure	Weighting	Threshold	% of maximum payout	Performance agreed	Agreed % outcome	Actual % of maximum awarded	Award as % of base salary: Simon Gill Cash	Simon Gill Deferred shares	Roberta Miles Cash	Roberta Miles Deferred shares	David Kingerlee Cash
Adjusted NAV per share movement	30%	-3.69% 0%	25% 100%	-1.72%	65.04%	19.5%					
Adjusted EPS performance	30%	2.76% 11.02%	25% 100%	5.93%	53.84%	16.2%					
Gross rent growth	15%	2.3% 9.0%	25% 100%	4.17%	46.33%	6.9%					
Strategic personal objectives	25%										
Simon Gill					100%	25%					
Roberta Miles					100%	25%					
David Kingerlee					50%	12.50%					
	100%										
Total											
Simon Gill						67.62%	80%	55.23%			
Roberta Miles						67.62%			80%	55.23%	
David Kingerlee						55.12%					55.12%

Deferred share element of award

The cost of the net pay, used to purchase shares for the deferred share element of the award is, for accounting purposes, spread across the total service and vesting periods of the deferred shares, which are:

Deferral period	50% of the award years	50% of the award years
2019 award	3.77	4.77
2020 award	**3.37**	**4.37**

		Base salary £	Deferred share element: % of base salary	Gross pay put through payroll £	MV of shares issued @53%	PAYE/NI payable on award*	Expensed in: 2019 £	2020 £	2021 £	2022 £	2023 £	2024 £
Simon Gill	2019 award	113,500	47.50%	53,913	28,574		12,802	**768**	6,785	5,913	2,306	–
						25,339	–	**25,339**	–	–	–	–
	2020 award	125,000	55.23%	69,039	36,591		–	**9,616**	9,616	9,616	6,195	1,548
						32,448		**32,448**	–	–	–	–
							12,802	**68,171**	16,401	15,529	8,501	1,548
Roberta Miles	2019 award	95,500	47.50%	45,363	24,042		10,771	**646**	5,709	4,975	1,941	–
						21,321	–	**21,321**	–	–	–	–
	2020 award	110,000	55.23%	60,754	32,200		–	**8,462**	8,462	8,462	5,452	1,362
						28,554	–	**28,554**	–	–	–	–
							10,771	**58,983**	14,171	13,437	7,393	1,362
Total							23,573	**127,154**	30,572	28,966	15,894	2,910

* In 2020 the accounting treatment for the share award was altered, in that the PAYE/NI on the whole share award is expensed in the service period and only the expense of the net salary used to acquire shares is spread across the total service and vesting period. This has resulted in a net additional expense of £35,580 related to the 2019 share award being charged in 2020, together with £10,447 of employers national insurance.

2019 award

The 2019 award was paid via the payroll in March 2020 and the net sum (calculated as 53% of the gross sum, after deducting PAYE and NI) was used to purchase shares on 5 May 2020 at £6.63 per share being the average of the closing share price for the previous three working days.

	2019 award		
	Number of shares	Purchase price £	Value at 31 December 2020 £
Simon Gill	4,309	28,569	31,025
Roberta Miles	3,626	24,040	26,107

Remuneration of the 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 together with the annual percentage change.

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fixed remuneration											
Simon Gill	**129**	113	108	98	95	70	51	21	–	–	–
Jonathan Kingerlee (deceased)	**–**	–	–	–	–	–	–	20	35	35	34
Variable remuneration											
Simon Gill	**168**	104	101	94	87	82	60	–	–	–	–
Single total figure of remuneration											
Simon Gill	**297**	217	209	192	182	152	111	21	–	–	–
Jonathan Kingerlee (deceased)	**–**	–	–	–	–	–	–	20	35	35	34
	297	217	209	192	182	152	111	41	35	35	34
Percentage change in total remuneration of CEO	**37%**	4%	9%	5%	20%	37%	171%	17%	0%	3%	0%
Annual variable element award payout against maximum opportunity*	**68%**	64%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

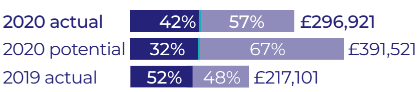
*The Highcroft Incentive Plan was introduced in 2019. Prior to that, any bonuses paid were entirely discretionary with no maximum opportunities defined.

If the share price increased, there would be no effect on the remuneration of CEO as disclosed above.

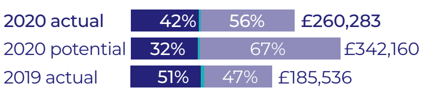
Executive directors' remuneration 2020

The charts below show the 2020 actual remuneration against the potential opportunity for the year and the 2019 remuneration for each executive director. Full disclosure of the single total figure for remuneration is set out above.

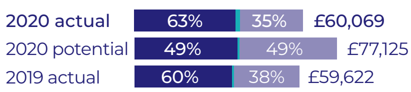
Simon Gill
Chief executive



Roberta Miles
Finance director



David Kingerlee
Executive director



Base salary   Pension   Incentive plan/discretionary bonus

* 2020 potential assumes that maximum incentive plan payment was made and spread evenly over the service and vesting period and takes into account the revised accounting treatment for the PAYE and NI on the 2019 and subsequent share awards.

Annual percentage change in remuneration of directors and employees

The table below shows a comparison of the annual change of each individual director's pay. As there is only one non-board employee it is not considered appropriate or beneficial to include that information as a comparator.

Change in pay between the year ended 31 December 2019 and 31 December 2020		Base salary/ fees % change	Pension % change	Incentive plan Cash award % change	Incentive plan Share award % change**
Executive directors	Simon Gill	10.1	–*	10.1	28.1
	David Kingerlee	5.6	67.4	(8.7)	–
	Roberta Miles	15.2	15.2	15.2	33.9
Non-executive directors	Charles Butler	22.5	–	–	–
	Simon Costa	17.5	–	–	–

* 2020 was the first year that Simon Gill was paid a pension allowance.

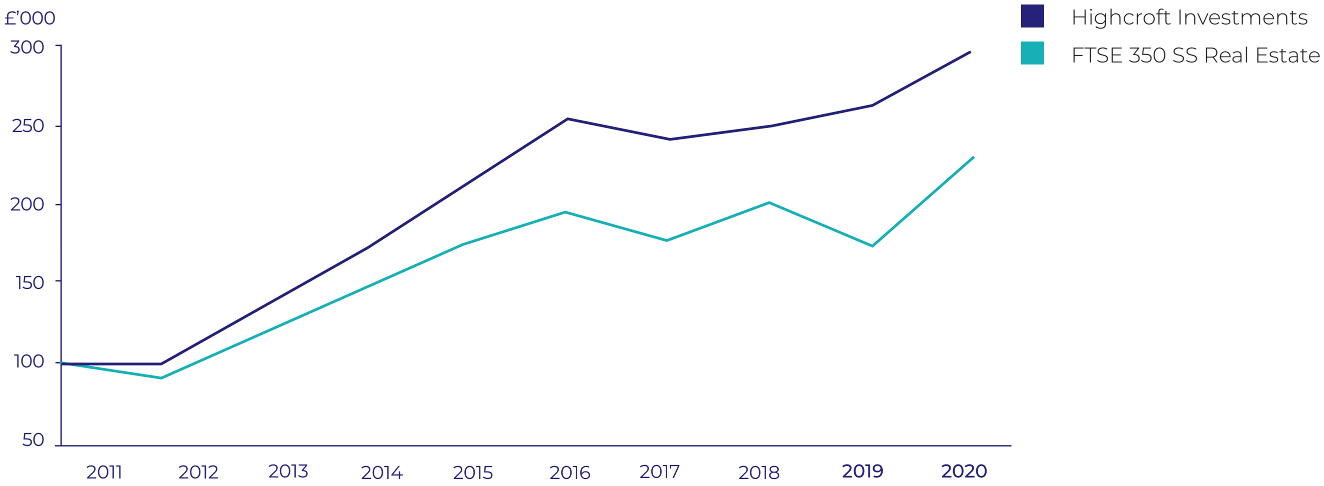
** The % change is calculated by reference to the gross value of the award for the year and not the amount expensed in the year (see page 57).

Company performance

The board is responsible for the group's performance.

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

Total Shareholder Return performance graph



Source: Thomson Reuters Datastream

Statement of implementation of remuneration policy in the next financial year

The board does not intend to make any significant changes to remuneration policy during 2021. David Kingerlee will cease to be eligible for pension contributions or payments under the Highcroft Incentive Plan with effect from 1 April 2021, in connection with his change of status from an executive to a non-independent non-executive director.

Salaries 2021

The committee undertook a benchmarking exercise with PWC at the beginning of 2019. At the end of 2019 and at the end of 2020, the committee carried out their own informal internal update of this exercise and reviewed the board salaries against wider market practice. The following base salaries apply from 1 January 2021:

Simon Gill	£127,500	Charles Butler	£50,000
Roberta Miles	£112,500	Simon Costa	£38,000
David Kingerlee to 31 March 2021	£38,000	David Kingerlee from 1 April 2021	£25,000

The change in David Kingerlee's salary during 2021 is linked to his change of status from and executive to a non-independent non-executive director.

Highcroft Incentive Plan 2021

The maximum opportunity under the Highcroft Incentive Plan for 2021 will continue to be 200% of salary for Simon Gill and Roberta Miles, and 100% of salary for David Kingerlee for the period 1 January 2021 until 31 March 2021. The awards will be based on four performance measures:

- NAV per share performance 30% weighting
- Adjusted EPS performance 30% weighting
- Gross rent growth 15% weighting
- Strategic metrics (non-financial) 25% weighting

Performance targets for the Incentive Plan for 2021 are not disclosed here on the grounds of commercial sensitivity, and will be disclosed in the 2021 directors' remuneration report.

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 2020, were as follows:

Charles Butler	–
Simon Costa	–
Simon Gill	4,309
David Kingerlee	1,498,333
Roberta Miles	9,576

Director's shareholding guideline

Executive directors are subject to within-employment and post-employment shareholding requirements – see page 53.

They are encouraged to build up over a five-year period from May 2020; a holding equivalent to 100% of base salary.

At 31 December 2020, the executive directors are on track to build up, on a straight-line basis, to their shareholding guideline within the five-year period.

		Within employment shareholding guideline by May 2025			
Executive director	Beneficially held shares*	2020 base salary £	Target by May 2025 £	Achieved at 31 December 2020	Value of beneficially held shares £
Simon Gill	4,309	125,000	125,000	24.8%	31,025
Roberta Miles	9,576	110,000	110,000	62.7%	68,947
David Kingerlee – personal	89,470	38,000	38,000	720%	644,184
– his connected persons, Kingerlee Holdings Limited and it subsidiaries	1,408,863				10,143,814
David Kingerlee – total	1,498,333				10,787,998

* For Simon Gill and Roberta Miles, the number of shares includes those issued in their name but not yet vested under the Highcroft Incentive Plan.

The value of the executive directors' shareholdings has been calculated using the closing price at 31 December 2020 of £7.20.

Statement of shareholder voting

At the AGM in 2020, the resolution to approve the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	1,933,225	99.9%
Votes cast against	2,500	0.1%
Total votes cast	1,935,725	100%
Votes withheld	–	–

Approved by the board of directors and signed by

Simon Costa
Chairman of the remuneration committee
7 April 2021

Report of the directors

The corporate governance report on pages 38 to 63 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 2020.

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

Directors

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

Charles Butler	Non-executive chairman
Simon Costa	Senior independent non-executive director
Simon Gill	Chief executive
David Kingerlee	Executive director*
Roberta Miles	Finance director

* With effect from 10 December 2020, David Kingerlee became a shareholder representative for Kingerlee Holdings Limited and, with effect from the date of this document, he will become a non-independent non-executive director as explained on page 41.

The board recognises the requirement of the UK Corporate Governance 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 60.

In accordance with the Code, all directors will retire and offer themselves for re-election at the forthcoming 2021 AGM.

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.

Financial instruments

The groups exposure to, and management of, capital 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 2020, was £1,293,794 (2019 £1,291,810) divided into 5,175,175 (2019 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:

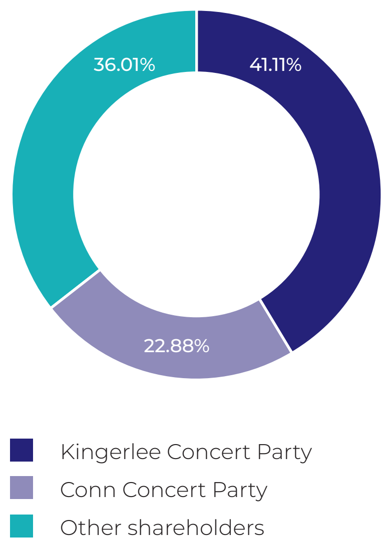
- **To receive a dividend.** The profits of the company available for dividend, and resolved to be distributed, shall be applied in the payment of dividends to the members and to persons becoming entitled to shares by transmission, in accordance with their respective rights and priorities. The company 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 they are 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 them or, upon payment of such reasonable out-of-pocket expenses for every certificate after the first as the board shall from time to time determine, several certificates each for one or more of their shares. On any transfer of shares, the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

Substantial shareholders

As at 31 December 2020, the following notifications of interests in 3% or more of the company's ordinary share capital in issue had been received:

			Beneficial	Number of shares
D G & M B Conn and associates			22.88%	1,184,405
Controlling shareholder – Kingerlee Concert Party comprising				
– the wholly owned subsidiaries of Kingerlee Holdings Limited:				
Kingerlee Limited	9.95%	515,000		
Kingerlee Homes Limited	7.71%	399,093		
T H Kingerlee & Sons Limited	9.56%	494,770		
Total – Kingerlee Holdings Limited	27.22%	1,408,863		
– other associates	13.89%	718,519		
Total – Kingerlee Concert Party			41.11%	2,127,382

Shareholder composition



Report of the directors continued

Controlling shareholder

A controlling shareholder is defined by the FCA as 'any person who exercises or controls, on their own or together with any other person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company'. The directors are aware that the shareholdings of Kingerlee Holdings Limited and its subsidiaries referred to in the previous table, together with their connected parties and associates form the Kingerlee Concert Party, which, as at 7 April 2021, held 2,127,382 ordinary shares, representing 41.11% 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 2019 until 31 December 2019 (the 'period')
- So far as the company is aware, the independence provisions in the CSA have been complied with by the controlling shareholder and its associates in the period; and
- So far as the company is aware, the procurement obligation in the CSA has been complied with by the controlling shareholder in the period.

The CSA contains undertakings that inter alia:

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

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

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.

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 £40,000kWh and also less than £5,000pa.
- 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 collect and report any detailed data on greenhouse gas emissions.

Engagement with customers, suppliers and others who have a business relationship with the company

The directors work closely with tenants, potential tenants and key members of our advisory team. During 2020, our interactions have, due to the COVID-19 pandemic, been less face-to face and more virtual, using teleconference and telephone. More detail can be found on page 33.

Dividends

The dividends paid by the company during the year and declared prior to the publication of this report are set out in Note 6 of the consolidated financial statements on page 79.

Charitable donations

During the year, the group made charitable donations of £11,000. More detail can be found on page 35.

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 they ought to have taken as a director to make themselves aware of any audit information and to establish that the auditor is aware of that information.

Likely future developments in the business of the company

In our strategic report we outlined our business model, strategy and future opportunities for development. Read more about this in our strategic report on pages 14 to 35.

Auditor

Mazars LLP have expressed their willingness to continue in office as auditors and a resolution to 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
7 April 2021

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 adopted pursuant to Regulation (EC) No 1606/200 2 as it applies in the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

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

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 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and they are prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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;
- 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
7 April 2021

FINANCIAL STATEMENTS

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 2020 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 flow and the notes to the consolidated financial statements, including a summary of significant accounting policies, 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 accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006 and, as regards the group financial statements, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, as applied in accordance with the provisions of the Companies Act 2006.

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 group and the parent 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 listed entities and 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In addition to those matters set out in the "Key audit matters" section below, we identified going concern of the group and of the parent company as a key audit matter. The going concern basis that the group's and the parent company's financial statements are prepared on is dependent on the group's financial performance including the ability to collect outstanding debtors, the group's continued access to borrowing facilities and the group's ability to continue to operate within its financial covenants. The group's borrowing facilities are secured against a group of investment properties whose value is subject to financial covenants. The ongoing impact of the Covid-19 pandemic impacts the group's ability to operate as a going concern. Please refer to Going concern and viability statement on page 32, the Audit Committee report on pages 45 to 48 and note 1 Basis of preparation on page 75.

Our audit procedures to evaluate the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern;
- Reviewing the Directors' going concern assessment including COVID-19 implications based on severe but plausible scenarios as approved by the board of directors on 6th April 2021;
- Making enquiries of Directors to understand the period of assessment considered by the Directors, the completeness of the adjustments taken into account and implication of those when assessing the severe but plausible scenarios on the group's future financial performance. This included examining the minimum cash inflow and committed outgoings under the cash flow forecasts and evaluated whether the Directors' conclusion that liquidity headroom remained in all events was reasonable;
- Assessing and challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' sensitivity analysis. This included assessing covenant headroom within the severe but plausible scenarios and recalculating loan covenant compliance to satisfy ourselves that no breaches are anticipated over the going concern period of assessment;
- Testing the accuracy used to prepare the directors' forecasts; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the group's and the parent company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures. The matters set out below are in addition to going concern which, as set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key audit matter	How our scope addressed this matter
Investment property valuation The group has a significant portfolio of investment properties consisting of warehouse/industrial, retail warehouse, high street retail, office and leisure in England and Wales. The group's investment properties were carried at £82.1m as at 31 December 2020. The valuation was carried out by the third party valuer Knight Frank (the 'valuer'). The valuer was engaged by the Directors and performed their work in accordance with the Royal Institute of Chartered Surveyors ("RICS") Valuation – Professional Standards and the requirements of IAS 40 'Investment property'. Investment properties make up 94% of total assets by value and is considered to be the key driver of commercial property return for the group and involves significant level of judgement in ascertaining the value under IFRS 13. The valuation of the investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. The wider challenges currently facing the real estate sector as a result of Covid-19 further contributed to the subjectivity at 31 December 2020. As a result, the valuation of investment properties is considered to be a key audit matter. Refer to pages 45 to 48 (Report of the Audit Committee), page 76 (Note 1 Significant accounting policies, accounting estimates and judgments and investment property) and pages 79 to 82 (Note 8 Investment property).	Our audit work included but was not restricted to: • Understanding management's review controls on the third party valuation report by discussing with management and performing a walkthrough to understand the design and implementation of review controls; • Evaluating the valuer's competence, capabilities and objectivity; • Obtaining the valuation reports and evaluating that valuation approach was in accordance with the RICS standard; • On a sample basis covering all portfolio sectors, engaging our valuation expert to review reasonableness and suitability of the key valuation assumptions; • Reviewing the key assumptions made by the valuer and appraising these against available market data such as locations and forecasts for market yield, market growth and return on investment percentages; • Comparing the property valuations to publicly available recent comparable property transactions; and • Reviewing the adequacy of the disclosure in the financial statements, including the valuation methodology, assumptions and fair value hierarchy used. **Our observations** Based on the work performed and evidence obtained, we consider the methodology and assumptions used to value the investment properties to be appropriate.

Independent auditor's report continued

to the members of Highcroft Investments PLC

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

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	776,000
How we determined it	The overall group statutory materiality has been calculated with reference to the group's total assets, of which it represents approximately 1%. This level has then been capped by the group materiality set by James Cowper Kreston who is responsible for the audit of the financial statements of Kingerlee Holdings Limited, which from a group perspective includes the results of the company as an associated entity by virtue of its group holding of 27.2% of the company's shares.
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	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. 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 £543,000 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 £23,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We also applied a lower level of specific materiality for certain areas such as the revenue return of 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 £64,000 and £691,000. The parent company materiality was set at £473,000. For all components across the group performance materiality was set at 70%.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our 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 group and the parent company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

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 other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 course of 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.

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 Guidance 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 parent 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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 32;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 32;
- Directors' statement on fair, balanced and understandable set out on page 63;
- Board's confirmation that it has carried out a robust assessment of the e-merging and principal risks set out on pages 46 to 47;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 48; and;
- The section describing the work of the audit committee set out on pages 45 to 48.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 63, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the group and the parent company and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the REIT regime, and we considered the extent to which non-compliance might have a material effect on the financial statements.

Independent auditor's report continued

to the members of Highcroft Investments PLC

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage of our audit, gaining an understanding of the legal and regulatory framework applicable to the group and parent company, the industry in which it operates and considered the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- Discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- During the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the parent company's and group's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the REIT regime. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to valuation of investment property, and significant one-off or unusual transactions; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Audit Committee on 10 December 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ending 31 December 2017 to 31 December 2020.

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 parent 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 parent 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 parent company and the parent 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
Date: 7 April 2021

Consolidated statement of comprehensive income

for the year ended 31 December 2020

		2020			2019		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		6,084	–	6,084	5,840	–	5,840
Property operating expenses	8	(620)	–	(620)	(184)	–	(184)
Net rental income		5,464	–	5,464	5,656	–	5,656
Valuation gains on investment property		–	2,525	2,525	–	739	739
Valuation losses on investment property		–	(7,175)	(7,175)	–	(3,627)	(3,627)
Net valuation losses on investment property	8	–	(4,650)	(4,650)	–	(2,888)	(2,888)
Dividend revenue		–	–	–	3	–	3
Gains on equity investments	9	–	–	–	–	53	53
Net investment income		–	–	–	3	53	56
Administration expenses	3	(1,069)	–	(1,069)	(826)	–	(826)
Net operating (loss)/profit before net finance expense		4,395	(4,650)	(255)	4,833	(2,835)	1,998
Finance income		4	–	4	6	–	6
Finance expense		(896)	–	(896)	(856)	–	(856)
Net finance expense		(892)	–	(892)	(850)	–	(850)
(Loss)/profit before tax		3,503	(4,650)	(1,147)	3,983	(2,835)	1,148
Income tax credit/(charge)	5	–	–	–	72	(66)	6
Profit for the year after tax		3,503	(4,650)	(1,147)	4,055	(2,901)	1,154
Total (loss)/profit and comprehensive (loss)/income for the year attributable to the owners of the parent		3,503	(4,650)	(1,147)	4,055	(2,901)	1,154
Basic and diluted (loss)/earnings per share	7			(22.2p)			22.3p

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 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Investment property	8	78,810	86,710
Equity investments at fair value through profit or loss	9	–	–
Total non-current assets		78,810	86,710
Current assets			
Trade and other receivables	11	1,692	1,147
Cash and cash equivalents		3,295	1,559
		4,987	2,706
Assets classified as held for sale	10	3,250	-
Total current assets		8,237	2,706
Total assets		87,047	89,416
Liabilities			
Current liabilities			
Interest bearing loan	13	–	4,000
Trade and other payables	12	2,726	2,495
Total current liabilities		2,726	6,495
Non-current liabilities			
Interest bearing loan	13	27,200	22,200
Deferred tax liabilities	14	–	–
Total non-current liabilities		27,200	22,200
Total liabilities		29,926	28,695
Net assets		57,121	60,721
Equity			
Issued share capital	15	1,294	1,292
Share-based payment reserve		43	12
Revaluation reserve – property		12,814	12,931
Other equity reserve		(53)	–
Share premium		51	–
Capital redemption reserve		95	95
Realised capital reserve		28,995	28,995
Retained earnings		13,882	17,396
Total equity attributable to the owners of the parent		57,121	60,721

These financial statements were approved by the board of directors on 7 April 2021.

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

2020	Issued share capital £'000	Share-based payment reserve £'000	Revaluation reserve property £'000	Other equity reserve £'000	Share premium £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2020	1,292	12	12,931	–	–	95	28,995	17,396	60,721
Transactions with owners:									
Issue of shares	2	–	–	(53)	51	–	–	–	–
Dividends	–	–	–			–	–	(2,484)	(2,484)
	2	–	–	(53)	51	–	–	(2,484)	(2,484)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation losses	–	–	(4,650)	–	–	–	–	4,650	–
Change in excess of cost over fair value through retained earnings	–	–	4,533	–	–	–	–	(4,533)	–
	–	–	(117)	–	–	–	–	117	–
Share award expensed	–	31	–	–	–	–	–	–	31
Total comprehensive loss for the year	–	–	–	–	–	–	–	(1,147)	(1,147)
At 31 December 2020	**1,294**	**43**	**12,814**	**(53)**	**51**	**95**	**28,995**	**13,882**	**57,121**

2019	Issued share capital £'000	Share-based payment reserve £'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 2019	1,292	–	18,770	574	95	28,378	13,275	62,384
Transactions with owners:								
Dividends	–	–	–	–	–	–	(2,829)	(2,829)
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation losses	–	–	(2,888)	–	–	–	2,888	–
Realised gains/(losses)	–	–	–	–	–	43	(43)	–
Movement in deferred tax on realisation of equities	–	–	–	29	–	(29)	–	–
Surplus attributable to assets sold in the year	–	–	–	(603)	–	603	–	–
Reassessment of carrying value of reserve accounts	–	–	(4,168)	–	–	–	4,168	–
Change in excess of cost over fair value through retained earnings	–	–	1,217	–	–	–	(1,217)	–
	–	–	(5,839)	(574)	–	617	5,796	–
Share award expensed	–	12	–	–	–	–	–	12
Total comprehensive income for the year	–	–	–	–	–	–	1,154	1,154
At 31 December 2019	1,292	12	12,931	–	95	28,995	17,396	60,721

Consolidated statement of cashflows

at 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
(Loss)/profit before tax	(1,147)	1,148
Adjustments for:		
Net valuation losses on investment property	4,650	2,888
Net gain on investments	–	(53)
Share-based payment expense	31	12
Finance income	(4)	(6)
Finance expense	896	856
Operating cashflow before changes in working capital and provisions	4,426	4,845
Increase in trade and other receivables	(545)	(667)
Increase in trade and other payables	252	325
Cash generated from operations	4,133	4,503
Finance income	4	6
Finance expense	(896)	(856)
Income taxes paid	(21)	(93)
Net cashflows from operating activities	3,220	3,560
Investing activities		
Purchase of non-current assets – investment property	–	(11,898)
Sale of non-current assets – equity investments	–	724
Net cashflows from investing activities	–	(11,174)
Financing activities		
Dividends paid	(2,484)	(2,829)
Repayment of bank borrowings	(4,000)	–
New bank borrowings	5,000	6,800
Net cashflows from financing activities	(1,484)	3,971
Net increase/(decrease) in cash and cash equivalents	1,736	(3,643)
Cash and cash equivalents at 1 January	1,559	5,202
Cash and cash equivalents at 31 December	3,295	1,559

Notes to the consolidated financial statements

for the year ended 31 December 2020

1 Significant accounting policies

Highcroft Investments PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 31 December 2020 comprise the company and its subsidiaries, together referred to as the group. The principal activity of the group is investment in commercial property in England and Wales. The accounting policies remain unchanged.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and they are prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In light of the significant impact of COVID-19 on the UK economy, and the sectors in which the group and company operates, the directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the group's and company's financial statements for the year ended 31 December 2020. The group's and company's going concern assessment considers the group's and company's principal risks, identified on pages 30 to 31 of this document, and is dependent on a number of factors, including cashflow and liquidity, continued access to borrowing facilities and the ability to continue to operate the group's and company's borrowings within its financial covenants. The debt has a number of financial covenants that the group is required to comply with including an LTV covenant a 12-month historical interest cover ratio, and the facility agreements have cure provisions in the event of a breach. The going concern assessment is based on a 12-month outlook from the date of the approval of these financial statements, using the group's five-year forecast. This forecast is based on a reasonable scenario, which includes the following key sensitivities:

- 15% reduction in net income from our portfolio.
- No new financing or refinancing is assumed – no existing facilities expire until May 2022.

Under this scenario, the group and company are forecast to maintain sufficient cash and liquidity resources and remain compliant with its financial covenants. Further sensitivity analysis was performed on this scenario, assuming a lower income collection rate. Even applying this sensitivity analysis, the group and company maintains sufficient cash and liquidity reserves to continue in operation throughout the going concern assessment period.

Based on the consideration above, the board believes that the group and company has the ability to continue in business at least 12 months from the date of approval of the financial statements for the year ended 31 December 2020, and therefore have adopted the going concern basis in the preparation of this financial information.

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

There are no new accounting standards or interpretations issued during the year that are relevant to the group other than:

IFRS 16: COVID-19 – related rent concessions (effective date 1 June 2020). This amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The group has not received any rent concessions as a result of COVID-19.

There are no amendments to, or interpretations of, existing standards that are relevant to the group but are not yet effective and have not been adopted.

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 2020, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

1 Significant accounting policies continued

Rental revenue as a lessor

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

Dividend revenue

Dividend revenue relating to exchange-traded equity investments is recognised in the statement of comprehensive income when the right to receive the payment is established. In some cases, the group may receive dividends in the form of shares rather than cash. In such cases, the group recognises the dividend income for the amount of cash dividend alternative with a corresponding increase in cost of investments.

Finance costs

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

Share-based employee remuneration

Share-based employee remuneration is determined with reference to the fair value of the cash award that is used to purchase the newly issued shares at the date which the award is agreed and charged to the income statement over the service and vesting period on a straight-line basis.

Expenses

All expenses are recognised in the statement of comprehensive income on an accrual basis.

Lease expenses

Lease expenses related to short-term licences to occupy, that are determinable on less than 12 months' notice, are recognised on a straight-line basis over the lease term.

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 substantively 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 substantively 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.

An asset will be classified as a short-term investment within current assets when the decision has been made by the board to dispose of it in its present condition and the sale is highly probable.

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. All the group's listed equity investments were disposed of in February 2019.

1 Significant accounting policies continued

Assets classified as held for sale

Where a board decision has been made to dispose of an investment property in its present condition prior to the year end and a sale is regarded as highly probable the property is included within current assets and stated at fair value.

Trade and other receivables

Trade and other receivables, which are generally due for settlement, in advance, prior to the relevant quarter or month, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. The group applies the IFRS9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable trade receivables. In determining the expected credit losses the group takes into account any recent payment behaviours and future expectations of likely default events such as not making payments on the due date. Trade and other receivables are written off once all avenues to recover the balances are exhausted. Receivables written off are no longer subject to any enforcement activity.

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.

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.

Share-based payment reserve

The share-based payment reserve includes the unissued element of the Highcroft Incentive Plan award that has been recorded in the comprehensive income statement.

Revaluation reserve property

This revaluation reserve includes annual revaluation gains and losses less applicable deferred taxation and is non-distributable.

Other equity reserve

The other equity reserve is debited with the value of the shares issues under the Highcroft Incentive Plan and credited with the value of the shares as they vest.

Share premium

Share premium represents the excess over nominal value of the fair value consideration for equity shares net of expenses of the share issue.

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 are 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 – and therefore no additional segmental information is required. 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. For management purposes, the group uses the same measurement policies as those used in its financial statements.

2 Segment reporting

The group is comprised of one main operating segment.

In 2020 one tenant represented £684,000, 11.2%, of the gross rental revenue of £ 6,084,000. In 2019 the largest tenant represented 8.8% of gross rental revenue.

Notes to the consolidated financial statements continued

for the year ended 31 December 2020

3 Administrative expenses

	2020 £'000	2019 £'000
Directors (Note 4)	801	597
Auditor's fees		
– Fees payable to the company's auditor for the audit of the company's accounts – current year*	48	33
– Additional fee in respect of prior year	8	–
– Fees payable to the company's auditor for other services	2	2
Staff costs	28	16
Other expenses	182	178
	1,069	826

*The audit fee for 2020 includes £10,000 (2019 £nil) related to the completion of a group reporting questionnaire for the Kingerlee Holdings Limited's auditor. This amount is recoverable in full from Kingerlee Holdings Limited and has been netted off other expenses.

4 Directors

	2020 £'000	2019 £'000
Remuneration in respect of directors was as follows:		
Remuneration	703	530
Pension costs	1	3
Social security costs	97	64
	801	597

The average number of employees was six (2019 six) all of whom, other than a part-time 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

	2020 £'000	2019 £'000
Current tax:		
On revenue profits – current year	(8)	72
– prior year	8	–
On capital profits	–	(99)
	–	(27)
Deferred tax (Note 14)	–	33
Income tax credit	–	6

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2019 19%).

The differences are explained as follows:

	2020 £'000	2019 £'000
Profit before tax	(1,147)	1,148
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019 19%)	(218)	218
Effect of:		
Tax exempt revenues	–	(11)
Profit not taxable as a result of REIT status	220	(216)
Chargeable gains more than accounting profit	–	103
Use of management expenses	–	(67)
Change in deferred tax liability	–	(33)
Adjustment in respect of previous years	(2)	–
Income tax credit	–	(6)

6 Dividends

In 2020, the following dividends have been paid by the company:

	2020 £'000	2019 £'000
2019 Final: 27.00p per ordinary share (2018 33.75p)	1,397	1,744
2020 Interim: 21.00p per ordinary share (2019 21.00p)	1,087	1,085
	2,484	2,829

On 7 April 2021 the directors declared a final property income distribution for 2020 of £1,553,000, 30.00p per share, together with a special property income distribution for 2020 of £311,000, 6.00p per share, (2019 final property income distribution of £1,397,000, 27.00p per share) both payable on 27 May 2021 to shareholders registered on 23 April 2021.

7 Earnings per share

The calculation of earnings per share is based on the total loss after tax for the year of £1,147,000 (2019 profit £1,154,000) and on 5,172,465 shares (2019 5,167,240), which is the weighted average number of shares in issue during the year ended 31 December 2020 (2019 5,167,240). There are no dilutive instruments.

In order to draw attention to the profit that is not due to the impact of valuation gains and losses that are included in the statement of comprehensive income, but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £3,503,000 (2019 £4,055,000) has been calculated.

	2020 £'000	2019 £'000
Earnings:		
Basic (loss)/profit for the year	(1,147)	1,154
Adjustments for:		
Net valuation losses on investment property	4,650	2,888
Gains on investments	–	(53)
Income tax on profit	–	66
Adjusted earnings	3,503	4,055
Per share amount:		
(Loss)/earnings per share (unadjusted)	(22.2p)	22.3p
Adjustments for:		
Net valuation losses on investment property	89.9p	55.9p
Gains on investments	–	(1.0p)
Income tax on profits	–	1.3p
Adjusted earnings per share	67.7p	78.5p

8 Investment property

	2020 £'000	2019 £'000
Total valuation at 1 January	86,710	77,700
Additions	–	11,898
Revaluation gains	2,525	739
Revaluation losses	(7,175)	(3,627)
Valuation at 31 December	82,060	86,710
Less property held for sale categorised as current asset	(3,250)	–
Property categorised as fixed asset	78,810	86,710

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by independent external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2020, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value.

The historical cost of the group's investment properties is £76,832,000 (2019 £76,832,000).

Notes to the consolidated financial statements continued

for the year ended 31 December 2020

8 Investment property continued

Valuation process

The valuation reports produced by the independent external valuers are based on information provided by the group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure (if any). This information is derived from the group's property management and financial information systems and is subject to the group's overall control environment.

In addition, the valuation reports are based on assumptions and models used by the independent valuer. The assumptions are typically market related such as yields and discount rates and are based on their professional judgement and market observation. Each property is considered a separate asset class based on the unique nature, characteristics, and risks of the property.

During 2020, many valuations were reported with material valuation uncertainty clauses on certain classes of assets. However, valuation markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, our independent valuers have confirmed that the valuation at 31 December 2020 is not reported as being subject to material valuation uncertainty.

The executive director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussion with the independent valuer. When this process is complete, the whole board then meet the valuer in the presence of the auditor. The valuation report is recommended to the audit committee, which considers it as part of its overall responsibilities.

Valuation technique

The fair value of the property portfolio has been determined using an income capitalisation technique whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on an arm's-length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as level 3 in the fair value hierarchy. In 2019, all investment properties were classified were with level 2 inputs. The change to the classification to level 3 is to comply with best practice and for comparison purposes.

Significant unobservable inputs

31 December 2020		Warehouse	Retail warehouse	Leisure	Office	High street retail	Total
Valuation technique				Income capitalisation			
Fair value of property portfolio	£'000	37,550	21,475	10,050	7,450	5,535	82,060
Area	sq ft	600,717	133,746	87,955	29,323	16,433	868,174
Gross estimated rental value (ERV)	£'000	3,342	1,539	818	544	399	6,642
ERV per sq ft							
Minimum	£	2.00	11.33	7.50	19.00	70.00	
Maximum	£	12.00	24.00	28.85	19.00	135.00	
Weighted average	£	8.28	13.17	12.09	19.00	109.87	
Net initial yield							
Minimum	%	4.97	5.98	3.05	4.05	0.00	
Maximum	%	11.52	8.43	12.11	11.31	8.47	
Weighted average	%	8.65	6.95	7.56	8.57	2.88	
Reversionary yield							
Minimum	%	5.50	6.08	6.10	4.65	6.48	
Maximum	%	18.50	7.98	10.24	9.57	7.22	
Weighted average	%	11.36	6.82	8.07	7.71	6.82	
Equivalent yield							
Minimum	%	4.99	6.03	6.02	4.65	5.95	
Maximum	%	9.00	7.92	9.09	8.42	7.07	
Weighted average	%	6.94	6.79	7.57	7.00	6.41	

8 Investment property continued

31 December 2019		Warehouse	Retail warehouse	Leisure	Office	High street retail	Total
Valuation technique		Income capitalisation					
Fair value of property portfolio	£'000	36,860	23,900	11,750	7,475	6,725	86,710
Area	sq ft	600,717	133,746	87,955	29,323	16,433	868,174
Gross estimated rental value (ERV)	£'000	3,322	1,649	869	546	396	6,782
ERV per sq ft							
Minimum	£	2.00	11.33	7.85	18.00	70.00	
Maximum	£	12.00	24.00	28.85	19.00	150.00	
Weighted average	£	8.20	14.08	12.34	18.62	118.21	
Net initial yield							
Minimum	%	5.06	5.22	6.75	4.34	5.58	
Maximum	%	10.47	7.23	7.01	10.36	7.47	
Weighted average	%	8.08	6.25	6.95	8.07	6.42	
Reversionary yield							
Minimum	%	5.50	6.08	6.10	4.65	6.48	
Maximum	%	18.50	7.98	10.24	9.57	7.22	
Weighted average	%	11.40	6.86	8.05	7.70	6.80	
Equivalent yield							
Minimum	%	4.95	5.19	6.75	4.70	4.72	
Maximum	%	9.01	7.56	8.02	8.08	6.25	
Weighted average	%	6.68	6.44	7.35	6.79	5.49	

Sensitivities of measurement of significant unobservable inputs

As set out on page 80, the valuation of the group's property portfolio is open to judgements that are inherently subjective by nature.

Unobservable input	Impact on the fair value measurement of a significant increase in input	Impact on the fair value measurement of a significant decrease in input
Estimated rental value	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
Equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in ERV and would mitigate its impact on the fair value measurement.

Information about the impact of changes in unobservable inputs on the fair value of the group's property portfolio

Sensitivities for changes in assumptions have been set out below at +/- 5% for ERV and +/- 50bps for EY, which are deemed to be the levels that give a reasonable worst-case scenario given the like-for-like valuation fall of 5.4% already recognised in the year.

31 December 2020	Warehouse £'000	Retail warehouse £'000	Leisure £'000	Office £'000	High street retail £'000	Total £'000
Fair value of property portfolio	37,550	21,475	10,050	7,450	5,535	82,060
Impact on valuation of:						
+5% on ERV	1,873	1,072	501	373	274	4,093
-5% on ERV	(1,873)	(1,072)	(501)	(373)	(274)	(4,093)
-50bps on EY	295	162	110	66	66	699
+50bps on EY	(290)	(159)	(107)	(65)	(64)	(685)

8 Investment property continued

31 December 2019	Warehouse £'000	Retail warehouse £'000	Leisure £'000	Office £'000	High street retail £'000	Total £'000
Fair value of property portfolio	36,860	23,900	11,750	7,475	6,725	86,710
Impact on valuation of:						
+5% on ERV	1,842	1,193	586	374	334	4,329
-5% on ERV	(1,842)	(1,193)	(586)	(374)	(334)	(4,329)
-50bps on EY	291	199	85	63	54	692
+50bps on EY	(286)	(195)	(84)	(61)	(53)	(679)

Additional property disclosures including property covenant information

Thirteen investment properties with a carrying amount of £49,850,000 (2019 ten properties with a valuation of £43,625,000) are charged to Handelsbanken plc to secure the group's short and medium-term loans. After the year end, one additional investment property with a carrying amount of £5,700,000 was also charged to Handelsbanken plc.

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

	2020 £'000	2019 £'000
Less than one year	5,161	5,864
Between one and five years	16,315	18,321
More than five years	13,354	14,903
	34,830	39,088

Property operating expenses are all analysed as arising from generating rental income and include the movement in the bad debt provision.

9 Equity investments

	2020 £'000	2019 £'000
Valuation at 1 January	–	679
Disposals	–	(670)
Valuation at 31 December	–	9
Unlisted investments transferred to other receivables	–	(9)
Equity investments at 31 December	–	–

The realised gains on equity investments shown in the statement of comprehensive income were as follows 2020 £nil (2019 £53,000). The listed equity investments were, historically, revalued using level 1 inputs, the quoted market price. The unlisted equity investments were, historically, valued using level 3 inputs, the last known price at which shares were traded in an active market.

10 Assets classified as held for sale

	2020 £'000	2019 £'000
Investment property held for sale	3,250	–

In December 2020, the directors decided to sell our Andover investment property in early 2021 to take advantage of prevailing market sentiment. There were several interested parties and, at the date of this report, contracts have been exchanged for the disposal with a conditional completion arrangement.

11 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	783	310
Accrued rent receivable	871	814
Other receivables	38	23
	1,692	1,147

Included in trade receivables are 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 2020, amounts due from tenants that were more than 90 days overdue, which related to rents for 2020 or earlier, totalled £281,000 (2019 £nil). Trade and other receivables are shown after deducting a provision for bad and doubtful debts of £366,000 (2019 £nil). The provision for doubtful debts is calculated as an expected credit loss on trade and other receivables in accordance with IFRS 9 (see Note 1). The charge to the income statement in relation to write-offs and provisions made against doubtful debts was £366,000 (£2019 £nil). The expected credit loss is recognised on initial recognition of a debtor and is reassessed at each reporting period. In order to calculate the expected credit loss, the group applies a forward-looking outlook to historic default rates. In the current reporting period, the forward-looking outlook has considered the impacts of COVID-19. The historic default rates used are specific to how many days past due a receivable is. Specific provisions are also made in excess of the expected credit loss where information is available to suggest that a higher provision than the expected credit loss is required. In the current reporting period, an additional review of tenant debtors was undertaken to assess recoverability in light of the COVID-19 pandemic. The directors consider that the carrying amount of trade and other receivables is approximate to their fair value. There is no concentration of credit risk with respect to trade and other receivables as all of the group's tenants have terms that require them to pay their rent in advance.

12 Trade and other payables

	2020 £'000	2019 £'000
Deferred income	983	1,179
Social security and other taxes	960	716
Other payables	783	600
	2,726	2,495

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

13 Interest bearing loan

	2020 £'000	2019 £'000
Short-term bank loans due within one year	–	4,000
Medium-term bank loans	27,200	22,200
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	7,500	–
Between two and five years	–	7,500
Over five years	19,700	14,700
	27,200	22,200

Further analysis of the short and medium-term bank loans, including the £5,000,000 drawn and the £4,000,000 repaid in 2020, is set out on page 27.

The weighted average effective interest rate is 3.13% (2019 3.50%).

14 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% (2019 17%).

	2020 £'000	2019 £'000
At 1 January	–	33
Realised in the year	–	(33)
At 31 December	–	–

15 Share capital

The movement in the number of 25p ordinary shares in issue is shown below:

	2020		2019	
	Number	£'000	Number	£'000
At 1 January	5,167,240	1,292	5,167,240	1,292
Issued under the Highcroft Incentive Plan	7,935	2	–	–
At 31 December	5,175,175	1,294	5,167,240	1,292

The directors monitor capital on the basis of total equity and operate within the requirements of the articles of association. There was £27,200,000 of medium-term debt at 31 December 2020 (2019 £26,200,000 short and medium-term debt). 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 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.

The rights and obligations relating to the company's share capital is summarised on page 61.

16 Capital commitments

There were no capital commitments at 31 December 2020 or at 31 December 2019.

17 Contingent liabilities

There were no contingent liabilities at 31 December 2020 or 31 December 2019.

18 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2019 27.3%) 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:

	2020 £'000	2019 £'000
Transactions by the company:		
Property income distribution paid to related party	676	771
Licence fee for use of property and recharge of sundry costs paid to related party	14	15

The company owns 100% of Rodenhurst Estates Limited and 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 91 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 £nil (2019 £121) for meeting room hire by Belerion Capital Group Limited of which £nil (2019 £nil) was outstanding at the year end.

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

	2020 £'000	2019 £'000
Simon Gill	2	–
David Kingerlee	43	49
Roberta Miles	5	3

19 Financial instruments and financial risk

Categories of financial instruments

	2020		2019	
	Carrying amount £'000	Gains/ (losses) £'000	Carrying amount £'000	Gains/ (losses) £'000
Financial assets measured at amortised cost:				
Trade and other receivables	1,692	–	1,147	–
Cash and cash equivalents	3,295	–	1,559	–
	4,987	–	2,706	–
Financial liabilities measured at amortised cost:				
Interest bearing loans	27,200	–	26,200	–
Trade and other payables	783	–	600	–
	27,983	–	26,800	–

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 2020, the group had £27,200,000 of medium-term borrowing (2019 £26,200,000 of short and medium-term borrowing), of which £7,500,000 is repayable in 2022, £3,400,000 in 2026, £4,500,000 in 2027, £6,800,000 in 2029 and £5,000,000 in 2030 at fixed interest rates with a weighted average of 3.13% (2019 3.50%). The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values. A maturity analysis, based on contractual, undiscounted payments is set out below:

2020	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within 1 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
Bank loans	27,200	31,863	850	8,166	1,672	21,175
Trade and other payables	783	783	783	–	–	–

2019	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within 1 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
Bank loans	26,200	30,643	4,856	740	8,946	16,101
Trade and other payables	600	600	600	–	–	–

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 2020 was £366,000 (2019 £nil). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2020 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 Handelsbanken plc and Lloyds Bank plc. Cash is also held by the group's property managers, lawyers and registrars acting as agents, though not, other than for tenant deposits, 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 short and 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. 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.

19 Financial instruments and financial risk continued

Interest rate risk

The group finances its operations through retained profits and medium-term borrowings at an interest rate that is fixed over the term of the loan. Interest rate swaps have not been used. The group places any cash balances on deposit at rates that 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.

Market risk

The group is not directly exposed to market risk.

Borrowing facilities

The group has no undrawn committed borrowing facilities.

20 Changes in liabilities arising from financing activities

	Bank loans (Note 13)	
	2020 £'000	2019 £'000
At 1 January	26,200	19,400
New loans	5,000	6,800
Loans repaid	(4,000)	–
Interest charged	896	856
Interest paid	(896)	(856)
At 31 December	27,200	26,200

21 Net assets per share

	2020	2019
Net assets	£57,121,000	£60,721,000
Ordinary shares in issue	5,175,175	5,167,240
Basic net assets per share	1,104p	1,175p

Company statement of financial position

at 31 December 2020

		2020		2019	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Investments	5		50,784		54,557
Current assets					
Debtors	6	5,006		6,650	
Cash at bank		2,040		28	
		7,046		6,678	
Creditors – amounts falling due within one year	7	709		514	
Net current assets			6,337		6,164
Total assets less current liabilities			57,121		60,721
Provision for liabilities	8		–		–
Net assets			57,121		60,721
Capital and reserves					
Called up share capital	9		1,294		1,292
Reserves					
– Share-based payment		43		12	
– Realised capital		8,728		8,728	
– Other equity reserve		(53)		–	
– Share premium		51		–	
– Capital redemption		95		95	
– Revaluation		40,521		44,294	
– Retained earnings		6,442		6,300	
			55,827		59,429
Shareholders' funds			57,121		60,721

These financial statements were approved by the board of directors on 7 April 2021.

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 2020

	Note	Share capital £'000	Share-based payment reserve £'000	Realised capital reserve £'000	Other equity reserve £'000	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2020		1,292	12	8,728	–	–	95	44,294	6,300	60,721
Profit for the year	2	–	–	–	–	–	–	–	2,626	2,626
Other comprehensive loss for the year	2	–	–	–	–	–	–	–	(3,773)	(3,773)
Dividends paid		–	–	–	–	–	–	–	(2,484)	(2,484)
Revaluation loss of subsidiaries		–	–	–	–	–	–	(3,773)	3,773	–
Issue of shares		2	–	–	(53)	51	–	–	–	–
Share award expensed		–	31	–	–	–	–	–	–	31
Balance at 31 December 2020		1,294	43	8,728	(53)	51	95	40,521	6,442	57,121

	Note	Share capital £'000	Share-based payment reserve £'000	Realised capital reserve £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019		1,292	–	8,118	95	46,661	6,218	62,384
Profit for the year	2	–	–	–	–	–	2,954	2,954
Other comprehensive loss for the year	2	–	–	–	–	–	(1,800)	(1,800)
Dividends paid		–	–	–	–	–	(2,829)	(2,829)
Revaluation loss of subsidiaries		–	–	–	–	(1,800)	1,800	–
Realised gains		–	–	43	–	–	(43)	–
Movement in deferred tax on realisation of equities		–	–	(3)	–	3	–	–
Tax on realised gains		–	–	(33)	–	33	–	–
Surplus attributable to assets sold in the year		–	–	603	–	(603)	–	–
Share award expensed		–	12	–	–	–	–	12
Balance at 31 December 2019		1,292	12	8,728	95	44,294	6,300	60,721

Notes to the company financial statements

for the year ended 31 December 2020

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.

These financial statements have been prepared on a going concern basis and in adopting the going concern basis the directors have, based on the information available at the date of this report, considered the financial implications of COVID-19.

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.

Share-based employee remuneration

Share-based employee remuneration is determined with reference to the fair value of the cash award that is used to purchase the newly issued shares at the date at which the award is agreed and charged to the income statement over the service and vesting period on a straight-line basis.

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 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 including shares in subsidiary undertakings 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 (loss)/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 loss after tax for the year was £1,147,000 (2019 profit £1,154,000). Information regarding directors' remuneration appears on pages 50 to 60 of this annual report.

3 Auditor's fees

	2020 £'000	2019 £'000
Fees payable to the company's auditor for the audit of the group's annual accounts*	48	33
Additional fee in respect of prior year	8	–
Fees payable to the company's auditor for other services:		
Audit related assurance services	2	2
	58	35

*The audit fee for 2020 includes £10,000 (2019 £nil) related to the completion of a group audit questionnaire for the Kingerlee Holdings Limited's auditor. This amount is recoverable in full from Kingerlee Holdings Limited and has been netted of other expenses.

4 Dividends

In 2020, the following dividends have been paid by the company:

	2020 £'000	2019 £'000
2019 Final: 27.00p per ordinary share (2018 33.75p)	1,397	1,744
2020 Interim: 21.00p per ordinary share (2019 21.00p)	1,087	1,085
	2,484	2,829

On 7 April 2021 the directors declared a final property income distribution for 2020 of £1,553,000, 30.00p per share, together with a special property income distribution for 2020 of £311,000, 6.00p per share, (2019 final property income distribution of £1,397,000, 27.00p per share) both payable on 27 May 2021 to shareholders registered on 23 April 2021.

5 Investments

	Shares in subsidiary undertaking £'000
Valuation at 1 January 2020	54,557
Deficit on revaluation in excess of cost	(3,773)
Valuation at 31 December 2020	**50,784**

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 undertaking £'000
Cost at 31 December 2020	**10,271**
Cost at 31 December 2019	10,271

At 31 December 2020, 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 have the same registered office address as the company: Park Farm Technology Centre, Akeman Street, Kirtlington, Oxon, OX5 3JQ.

5 Investments continued

At 31 December 2020, the net assets and the profit for the financial year of these subsidiaries were:

	2020		2019	
	Net assets £'000	Loss for the financial year £'000	Net assets £'000	Profit/(loss) for the financial year £'000
Rodenhurst Estates Limited	50,784	(773)	54,557	1,203
BL (Wisbech) Limited*	–	–	–	–
Belgrave Land (Wisbech) Limited	2,412	(628)	3,040	(66)

* BL (Wisbech) Limited is a dormant intermediate holding company between Belgrave Land (Wisbech) Limited and Rodenhurst Estates Limited. It holds the shares in Belgrave Land (Wisbech) Limited at cost.

6 Debtors

	2020 £'000	2019 £'000
Owed by subsidiary undertakings	4,982	6,426
Other debtors	24	224
	5,006	6,650

7 Creditors – amounts falling due within one year

	2020 £'000	2019 £'000
Other taxes and social security	295	226
Other creditors	414	288
	709	514

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% (2019 17%)

	2020 £'000	2019 £'000
At 1 January	–	33
Utilised	–	(33)
At 31 December	–	–

9 Share capital

The movement in the number of 25p ordinary shares in issue is shown below:

	2020		2019	
	Number	£'000	Number	£'000
At 1 January	5,167,240	1,292	5,167,240	1,292
Issued under the Highcroft Incentive Plan	7,935	2	–	–
At 31 December	5,175,175	1,294	5,167,240	1,292

10 Capital commitments

There were no capital commitments at 31 December 2020 or at 31 December 2019.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2020 or at 31 December 2019.

12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2019 27.3%) 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:

	2020 £'000	2019 £'000
Property income distribution paid to related party	676	771
Licence fee for use of property and recharge of sundry costs paid to related party	14	15

The company terminated its licence with Kingerlee Limited, a subsidiary of Kingerlee Holdings Limited, on 20 January 2021.

Charles Butler is a director of both the company and Belerion Capital Group Limited. During the year, the company was charged £nil (2019 £121) for meeting room hire by Belerion Capital Group Limited, of which £nil (2019 £nil) was outstanding at the year end.

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

13 Employees

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

	2020 £'000	2019 £'000
Remuneration	728	546
Pension costs	1	3
Social security costs	100	65
	829	614

List of definitions

Company voluntary arrangement (CVA): A procedure that allows a company to settle debts by paying only a proportion of the amount that it owes to creditors.

Estimated rental value (ERV): The rent at which the space could be let out in the market conditions prevailing at the date of valuation.

Interest cover ratio (ICR): The number of times net interest payable is covered by rental income of the secured properties.

Loan-to-value (LTV): Drawn debt divided by the fair value of the property portfolio. For bank facility purposes, the 'fair value of the property portfolio' is replaced by the valuation included on valuation reports addressed to the bank.

Net debt: Borrowings plus bank overdraft less cash and cash equivalents.

Net initial yield: The initial gross income as a percentage of the market value plus standard costs of purchase.

Property income distribution (PID): Dividends from profits of the group's tax-exempt property rental business under the REIT regulations.

Real Estate Investment Trust (REIT): The UK REIT regime was launched on 1 January 2007. On 1 April 2008, Highcroft elected to convert to REIT status. The REIT legislation was introduced to provide a structure that closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publicly available vehicle that opens the property market to a wide range of investors. A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains. Subject to concessions granted during the COVID-19 pandemic, REITs must distribute at least 90% of their income profits from their tax-exempt property rental business, by way of dividend, known as a property income distribution (PID). These distributions can be subject to withholding tax at 20%. If the REIT distributes profits from the non-tax-exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors (non-PID).

Return on equity: Total profit and comprehensive income divided by average total equity.

Reversionary yield: The yield that would be achieved if the passing rent adjusts to the level of the ERV.

Total shareholder return: The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, expressed as a percentage of the share price at the beginning of the year.

Weighted average unexpired lease term (WAULT): The average lease term remaining to the first to occur on each lease of a tenant break option, or lease expiry, across the portfolio, weighted by rental income.

Group five-year summary (unaudited)

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Investment properties – at annual valuation	**82,060**	86,710	77,700	77,113	65,997
Equity investments – at market value	**–**	–	679	2,131	2,469
Total net assets	**57,121**	60,721	62,384	59,977	55,325
Net asset value per share in issue at end of each year	**1,104p**	1,175p	1,207p	1,161p	1,071p
Revenue (excluding gains/losses on disposals of assets)					
Gross income from property	**6,084**	5,840	5,043	4,765	3,906
Net admin expenses to gross rent	**17.6%**	14.1%	14.6%	13.9%	16.7%
Profit available for distribution	**3,503**	4,055	4,512	3,348	2,912
Share capital					
Weighted average number in issue (000's)	**5,172**	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	**(22.2p)**	22.3p	95.3p	132.3p	84.0p
Adjusted earnings per ordinary share	**67.7p**	78.5p	87.3p	64.8p	55.7p
Dividends payable per ordinary share	**57.00p**	48.00p	52.50p	46.25p	41.00p
FTSE 350 Real Estate Index	**491**	602	468	568	515
Highcroft year-end share price	**720.0p**	942.5p	885.0p	887.5p	897.5p

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
(Non-executive)

Roberta Miles, MA FCA
(Finance)

Company secretary
Roberta Miles, MA FCA

Independent auditor
Mazars LLP
Statutory Auditor
Chartered Accountants
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

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

Bankers
Lloyds Bank plc
Ground Floor
Canons House
Canons Way
Bristol
BS1 5LL

and

Handelsbanken plc
Latimer House
Langford Locks
Kidlington
Oxon
OX5 1GG

Solicitors
Clarkslegal LLP
5th Floor
Thames Tower
Station Road
Reading
RG1 1LX

and

Charles Russell Speechly LLP
5 Fleet Place
London
EC4M 7RD

Property managing agents
Workman LLP
Alliance House
12 Caxton Street
London
SW1H 0QS

Corporate finance advisers
Nplus1 Singer Advisory LLP
One Bartholomew Lane
London
EC2N 2AX

Registrars
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Tax advisers
Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Registered office and business address
Park Farm Technology Centre
Akeman Street
Kirtlington
Oxon
OX5 3JQ

Consultancy, design and production by:
jonesandpalmer.co.uk

Highcroft
Investments PLC

Park Farm Technology Centre
Akeman Street
Kirtlington
Oxon
OX5 3JQ