Highcroft Investments PLC

Stakeholder focused
Market aware
Opportunity driven

Leveraging market opportunities to grow sustainably

Annual report and accounts for the year ended 31 December 2021

Stock code: HCFT

www.highcroftplc.com

Highcroft Investments PLC

Annual report and accounts 2021

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 values

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

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

HIGHLIGHTS

DIVIDENDS PAYABLE TO SHAREHOLDERS

55.0p -3.5%

2021	55.0p
2020	57.0p*
2019	48.0p
2018	52.5p
2017	46.25p

*includes special dividend of 6p per share

NET ASSET VALUE PER SHARE

1,275p +15.5%

2021	1,275p
2020	1,104p
2019	1,175p
2018	1,207p
2017	1,161p

GROSS PROPERTY INCOME

£5.9m -2.6%

2021	£5.9m
2020	£6.1m
2019	£5.8m
2018	£5.0m
2017	£4.8m

NET PROPERTY INCOME

£5.3m -3.8%

2021	£5.3m
2020	£5.5m
2019	£5.7m
2018	£4.9m
2017	£4.5m

ADJUSTED EARNINGS PER SHARE

56.7p -11.0p

2021	56.7p
2020	67.7p
2019	78.5p
2018	87.3p
2017	64.8p

TOTAL EARNINGS PER SHARE

230.5p

2021	230.5p
2020	(22.2)p
2019	23.3p
2018	95.3p
2017	132.3p

VALUE OF PROPERTY ASSETS

£87.6m +6.70%

2021	£87.6m
2020	£82.1m
2019	£86.7m
2018	£77.7m
2017	£77.1m

NET DEBT/GEARING

£21.5m 32%

2021	£21.5m/32%
2020	£23.9m/42%
2019	£24.6m/41%
2018	£14.2m/23%
2017	£17.5m/29%

AVERAGE LOT SIZE

£4.2m +11.8%

2021	£4.2m
2020	£3.7m
2019	£3.9m
2018	£3.9m
2017	£3.6m

OCCUPANCY IN OUR PORTFOLIO

93%

2021	93%
2020	99%
2019	100%
2018	100%
2017	100%

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CHAIRMAN'S STATEMENT

CHARLES BUTLER
Chairman

"Our portfolio proved to be very resilient throughout 2021 and I am pleased to report a very solid set of results for the year."

At the time of writing to you last year, I don't think we would have believed that 2021 would be primarily dominated by continuing to deal with the effects of the pandemic. Whilst the effects of Covid-19 continued to be felt across the world, we took a cautious approach in how we managed the portfolio, keeping a relatively low LTV, a healthy level of cash and taking no unnecessary risks. Our portfolio proved to be very resilient throughout 2021 and I am pleased to report a very solid set of results for the year.

READ MORE ABOUT **OUR PORTFOLIO** ON PAGES **08 TO 15**

READ MORE ABOUT **SUSTAINABILITY** ON PAGES **40 TO 43**

Property portfolio

The focus of our asset management has been on warehouses and retail warehouses for several years (making up 73% of our portfolio by asset value). This has proven to be a successful strategy with a strong sector performance in 2021. Notwithstanding the volatile macro environment, we expect to see this positive momentum continue into 2022.

We did not acquire any properties during the year and sold one property well at an increase of 9% over its 31 December 2020 valuation. Notwithstanding the ongoing pandemic, we continued to achieve a high level of rent collection for the year of 97% (2020 94%). Our gross rental revenue decreased by 2.6% (2020 4% increase) due primarily to the negative effects of CVAs and voids offset by our asset management initiatives and one-off income.

When taken together with a very positive like-for-like property revaluation of 11.1% this led to an overall increase in net assets of 15.5%.

Dividend

The company's interim dividend was 22p, a 4.8% increase on 2020 and we are proposing a final dividend for 2021 of 33p per share, taking the total dividend for 2021 to 55p per share. This represents an increase of 8% from the 2020 dividend of 51p per share (excluding the 2020 special dividend of 6p per share).

Sustainability

Highcroft has a clear purpose of providing our tenants with excellent properties in optimal locations, enabling them to succeed, and our stakeholders to benefit on a long-term sustainable basis. As a board we consider climate-related risks and opportunities and over the year have evaluated how any future developments will be approached, and the most appropriate strategy for reducing our impact within the existing portfolio. We are in a process of identifying what levers we can operate and influence to ensure the sustainability of our business.

People

As for many companies, the ongoing impacts of the Covid-19 pandemic have presented challenges to the board, the tenants we serve, and the communities we operate in. During the year the business has continued to perform commendably, and I would like to thank my fellow directors and the employees for the continued commitment and considerable efforts over the last year.

During the year, we welcomed Anne-Marie Palmer as company secretary. Anne-Marie has 20 years' experience as a chartered secretary advising listed companies and as reported last year, recognising both the increase in governance and reporting requirements, we welcome her addition to the team.

Outlook

2021 was a strong year for Highcroft despite the world still being seriously affected by Covid-19. We now face new macro challenges with the tragic events in Ukraine. While there is no doubt the effects of this will be severe and long lasting, we are confident that with the cautious approach we take to managing the portfolio, along with relatively low levels of gearing, we can continue to deliver robust shareholder returns against a continuing volatile global backdrop.

We are planning that our AGM this year will be back to normal as an open meeting, and I look forward to meeting those of you who can make it.

CHARLES BUTLER
Chairman
28 March 2022

GROUP AT A GLANCE

Navigating the market for long-term success by maintaining the quality of our tenant covenants, increasing our average lot size, and being sector aware.

Our portfolio in 2016

TOTAL VALUE
£66.0m

AVERAGE LOT SIZE
£3.3m

NUMBER OF PROPERTIES
20

NUMBER OF DISPOSALS SINCE 2016
4*

NUMBER OF ACQUISITIONS SINCE 2016
6 including those in 2016

*excluding residential

PROPERTY WEIGHT

Warehouse	29%
Retail warehouse	39%
Leisure	3%
Office	10%
High street retail	18%
Residential	1%

The shift in our portfolio enables long-term sustainable success and increased dividend returns for our shareholders.

2017

KEY ACQUISITION

Giant Booker, Nottingham: A freehold cash & carry warehouse let to the strong covenant of Giant Booker. Price £5.28m, yield 6%.

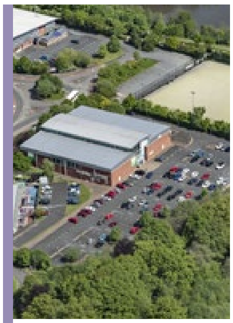
KEY ACQUISITION

St Austell: 250,000 sq ft of industrial/warehouse space let to Walstead Roche Limited. The property was acquired for £4.2m and an attractive yield of 11.2%.

KEY DISPOSAL

Staines: We further reduced our exposure to the high street by selling these shops with offices above for a price of £2.3m.

2018



KEY ACQUISITION

Rubery: Our leisure sector was increased with the purchase of this gym asset let to Nuffield Health for £4.925m and a yield of 7.0%. The lease was subsequently regeared for a term of 20 years with guaranteed fixed uplifts.

Shift in portfolio

The directors have an ongoing strategy to rebalance the portfolio to take advantage of a changing property market. We have reduced our high street retail weighting as shopping patterns were changing, principally due to the internet and Covid-19, and increased the weighting of warehousing and retail warehousing assets.

Our portfolio in 2021

TOTAL VALUE
£87.6m

AVERAGE LOT SIZE
£4.2m

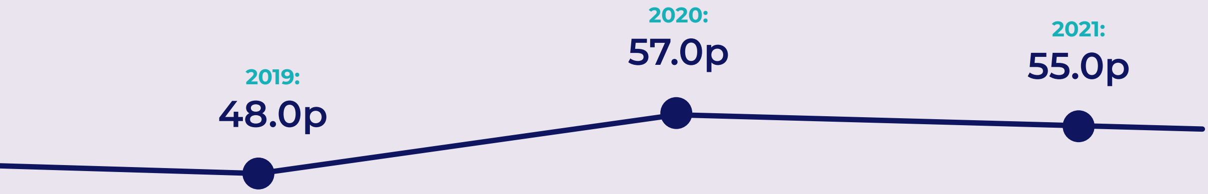
NUMBER OF PROPERTIES
21

PROPERTY WEIGHT

Warehouse	45%
Retail warehouse	28%
Leisure	12%
Office	9%
High street retail	6%
Residential	0%

READ MORE ABOUT **OUR MARKETPLACE** ON PAGES **18 TO 19**

Read more about **OUR STRATEGY** on pages **22 TO 23**



2021

KEY DISPOSALS

Southampton: We sold the leasehold interest of our warehouse unit on the Nursling industrial estate for 4.7%, £3.67m. The lease had only 2 years remaining.

Cirencester: Our policy of selling high street assets continued with our Cirencester property let to Ladbrokes and Clinton Cards and others, where we achieved a sale at 6%.

KEY ACQUISITION

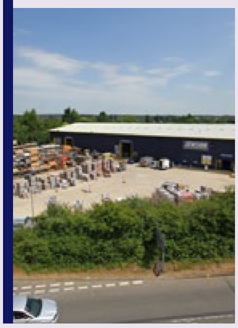
Ipswich: This purchase comprised a gym unit let to DW Fitness on a long lease with fixed uplifts, plus a motorcycle showroom. The purchase price was £4.65m and 7%.

2021

2019

KEY ACQUISITION

Llantrisant: We increased our industrial/warehouse sector with the acquisition of 108,000 sq ft let to BAAE. The acquisition price was £6.5m and the yield 11.6%.



KEY DISPOSAL

Andover: This leasehold property let to Jewson had shown no rental growth and was sold for a yield of 4.9%.

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 PAGES **20 TO 21**

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 page 71.

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

STAKEHOLDER FOCUSED
Our actions are centred on our stakeholders; 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.

And we achieve this by being hard-working and flexible, progressive and pragmatic, collaborative and supportive, efficient and effective.

Why invest in Highcroft?

01

Strong balance sheet and cash generative

Our £87.6m, 849,000 sq ft of assets underpin our balance sheet and financial strength.

READ MORE ABOUT **OUR ASSETS** ON PAGES **08 TO 15**

02

Progressive dividend returns

Our dividends have increased by a compound annual rate of 6.4% since joining the REIT regime in 2009.

READ MORE ABOUT **OUR DIVIDEND HISTORY** ON PAGE **28**

03

Diversified and sustainable income from the UK property market

We have 21 assets, spread across five sectors, geographically focused in the south of the UK with a WAULT of 5.6 years.

READ MORE ABOUT **THE SHIFT IN PORTFOLIO** ON PAGES **04 TO 05**

04

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

Our experienced executive team has consistently delivered on our strategy.

READ MORE ABOUT **OUR BOARD** ON PAGES **48 TO 49**

OUR PORTFOLIO

A diversified portfolio well-placed to deliver long-term success.

KEY

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

RETAIL WAREHOUSE - CRAWLEY

OFFICES - OXFORD

WAREHOUSE - ST AUSTELL

WAREHOUSE - ASH VALE

RETAIL WAREHOUSE - BICESTER

OFFICES - CARDIFF

WAREHOUSE - LLANTRISANT

WAREHOUSE - KIDLINGTON

READ **OUR KEY PERFORMANCE INDICATORS** ON PAGES **24 TO 25**

READ **OUR OPERATING REVIEW** ON PAGES **26 TO 27**

OUR PORTFOLIO

WAREHOUSE/INDUSTRIAL

This sector continued its dramatic growth seen in 2020 with logistics being the main growth driver and Amazon grabbing almost a third of available space. 2022 will be another year of strong demand from both occupiers and investors and there is likely to be further yield compression to the already record-breaking low yields. Over 45% of our portfolio is held in this sector which is likely to increase once further management opportunities have been exploited.

	Warehouse portfolio	Value £'000
3	Nottingham	6,900
5	Milton Keynes	6,700
6	St Austell	6,350
7	Llantrisant	6,250
9	Kidlington	5,000
10	Ash Vale	4,900
12	Bedford	3,700
Total		39,800

RETAIL WAREHOUSE

Retail warehousing was the 'comeback kid' of the market in 2021 as shoppers shied away from the high street and felt more comfortable with the click-and-collect, private transport and social distancing opportunities that a retail warehouse can provide. With approximately 28% of our portfolio in this sector, we are in a good position to benefit from this resurgence.

	Retail warehouse portfolio	Value £'000
1	Grantham	7,400
2	Bicester	7,150
4	Wisbech	6,825
15	Crawley	2,875
Total		24,250

LEISURE

2021 was another difficult year for the leisure industry with lockdowns and social distancing regulations. However, restrictions eased throughout the year which provided confidence for occupiers; this resulted in the letting of our vacant gym unit in Ipswich for a 15-year term, without breaks, and an enhanced year-end valuation.

	Leisure portfolio	Value £'000
8	Rubery	5,150
13	Ipswich	3,700
18	Coventry	1,900
Total		10,750

OFFICE

The office sector continued to suffer from the 'work from home' regulations imposed by the government; this was exacerbated by people's general reluctance to return to the office when restrictions eased and employers struggled to enforce a return. This has led to a restructuring of how much space occupiers need with some occupiers reducing their requirements by up to 20%. Offices account for less than 9% of our portfolio.

	Office portfolio	Value £'000
11	Oxford	4,850
14	Cardiff	2,950
Total		7,800

HIGH STREET RETAIL

We have concentrated on reducing our exposure to the high street which now only represents 5.6% of our portfolio. 2021 was another difficult year for high street retailers who were unable to trade for parts of the year. Turnover figures were dramatically reduced with shoppers preferring online shopping or retail parks where social distancing and private transport were possible.

	High street retail portfolio	Value £'000
16 17	Oxford (2 units)	2,200
19	Leamington Spa	1,200
20	Norwich	900
21	Oxford	665
Total		4,965

ALTERNATIVES

We continue to look at this sector but have not yet acquired any properties. Moving into this sector – retirement homes, hospitals etc. would help balance our portfolio further and provide a greater spread of risk.

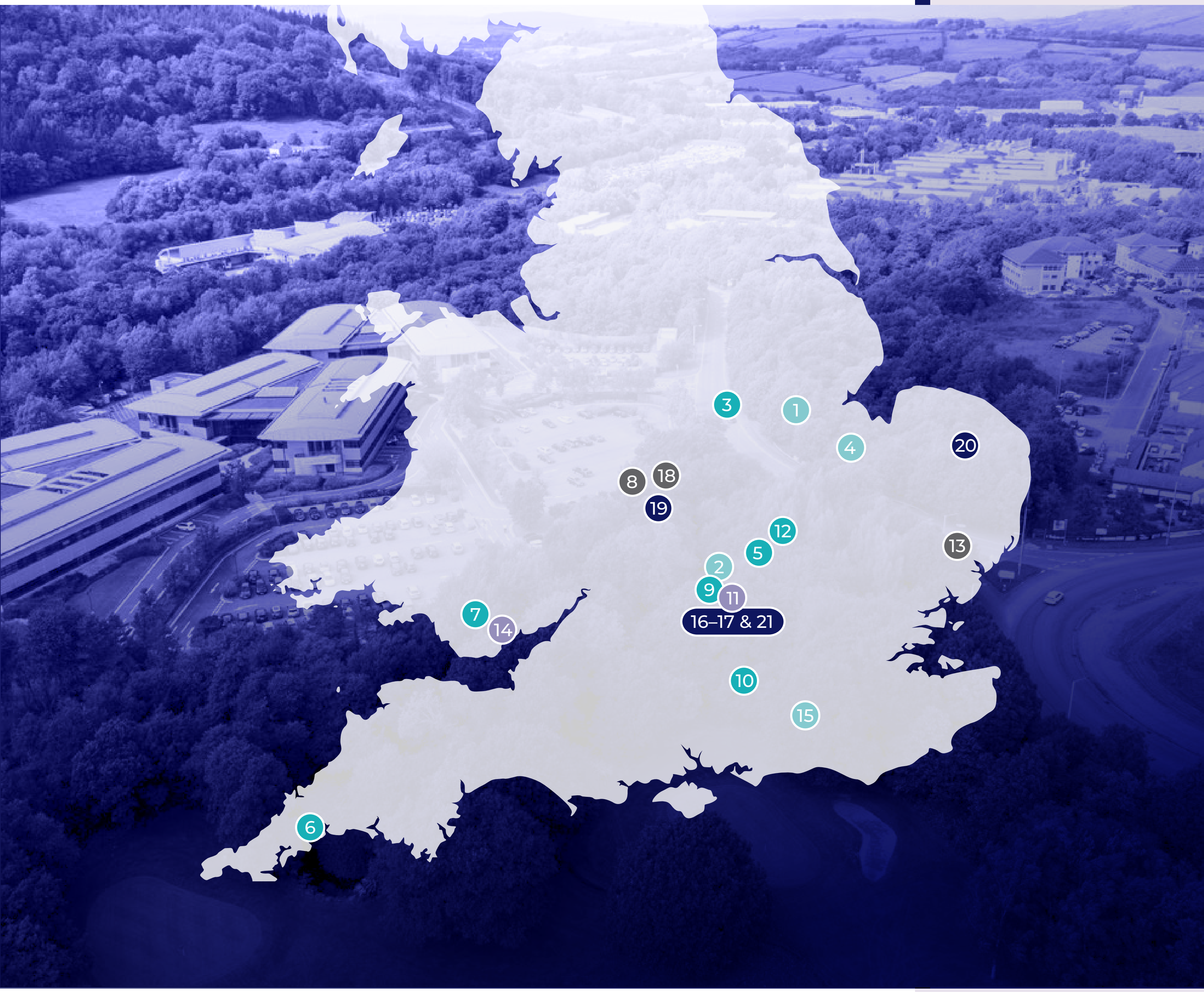
Why the south of England and Wales?

Highcroft has benefitted from the growth in rents and values in these areas whilst maintaining our risk exposure at an acceptable level. Our search for new properties is not solely confined to these areas and we will consider any opportunity subject to solid property fundamentals.

Numbering corresponds to order of assets by valuation.
For more detail see pages 13 to 15.

OUR CORE SECTORS

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



OUR PORTFOLIO

Why the quality of our tenants is crucial to our success; how we assess potential tenants and manage relationships

The quality of our tenants is crucial to our success so that we can maintain the dividend growth our shareholders have witnessed and benefitted from over many years. We assess the strength and quality of each new tenant relevant to the property and location in question; if a tenant trades well, the rental income will be secure which will be passed on to shareholders via a dividend. Equally, if the location is good for the tenant this will attract further occupiers and increase demand, therefore ensuring future rental growth.

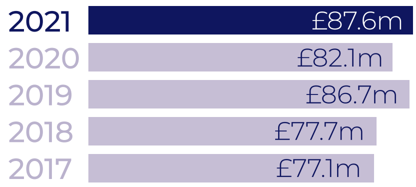
Prior to entering into a lease with a tenant, we will undertake financial due diligence to ensure the prospective tenant can meet its financial commitments under the lease.

Our tenant criteria: ensuring our tenants are sustainable

We make great efforts to ensure our properties are let to, and occupied by, tenants and companies that have sustainable, environmental credentials. We work together with our occupiers to make sure we comply with government guidelines on green policies which includes ensuring that there will be no future ground contamination issues.

INVESTMENT PROPERTIES AT ANNUAL VALUATION

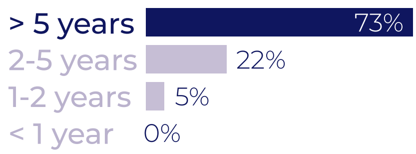
£87.6m +6.7%



WEIGHTED AVERAGE LEASE LENGTH

5.6 years -5.4%

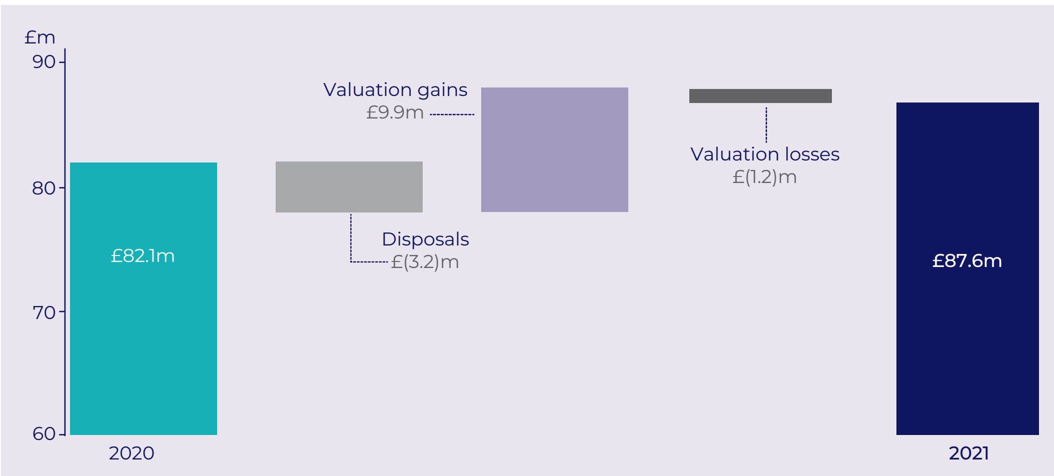
WEIGHTED AVERAGE LEASE EXPIRIES



SEE **HOW WE ENGAGE WITH OUR TENANTS AND OTHER STAKEHOLDERS** ON PAGE **39**

SEE OUR **SUSTAINABILITY SECTION** ON PAGES **40 TO 43** FOR MORE INFORMATION ABOUT **OUR APPROACH TO THE ENVIRONMENT AND CLIMATE CHANGE**

MOVEMENTS IN INVESTMENT PROPERTY VALUATION



Warehouses

Total value: **£39.8m**

			Tenure	Let to	Value £'000	Size sq ft
10	ASH VALE		Freehold warehouse	SIG Construction Accessories	4,900	25,081
12	BEDFORD		Freehold warehouse	Booker Wholesale	3,700	40,536
9	KIDLINGTON		Freehold warehouse	Parcelforce	5,000	30,638
7	LLANTRISANT		Virtual freehold warehouse/r&d facility	British Airways Avionic Engineering	6,250	107,684
5	MILTON KEYNES		Freehold warehouse	IKEA	6,700	43,444
3	NOTTINGHAM		Freehold warehouse	Booker Wholesale	6,900	83,916
6	ST AUSTELL		Freehold warehouse	Walstead	6,350	250,087

OUR PORTFOLIO

Retail warehouses

Total value: **£24.2m**

			Tenure	Let to	Value £'000	Size sq ft
2	BICESTER		Freehold retail warehouse	Wickes	7,150	29,130
15	CRAWLEY		Freehold retail warehouse	pets at home	2,875	6,898
1	GRANTHAM		Freehold retail warehouse	B&Q, M&S Simply Food	7,400	42,090
4	WISBECH		Freehold retail warehouse park	Currys PC World, halfords, pets at home, Dunelm mill, Carpetright	6,825	55,628

Leisure

Total value: **£10.8m**

			Tenure	Let to	Value £'000	Size sq ft
18	COVENTRY		Freehold leisure	GREGGS, SUBWAY	1,900	5,953
13	IPSWICH		Freehold leisure/retail	ORWELL, truGym	3,700	43,738
8	RUBERY		Freehold leisure	Nuffield Health	5,150	38,264

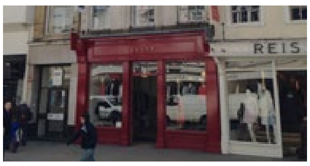
Office

Total value: **£7.8m**

			Tenure	Let to	Value £'000	Size sq ft
11	OXFORD SUMMERTOWN		Freehold offices	BBC	4,850	11,526
14	CARDIFF		Freehold offices	Void	2,950	17,797

High street retail

Total value: **£5.0m**

			Tenure	Let to	Value £'000	Size sq ft
19	LEAMINGTON SPA		Freehold shop	Sabre Retail Limited t/a MINT VELVET	1,200	3,139
20	NORWICH		Freehold shop	Harriets	900	4,658
21	OXFORD HIGH STREET		Freehold shop	Void	665	1,741
16 17	OXFORD HIGH STREET		One long leasehold One freehold shop/office	Robinson Webster t/a JIGSAW	2,200	6,895

STRATEGIC REPORT

Contents

OUR MARKETPLACE

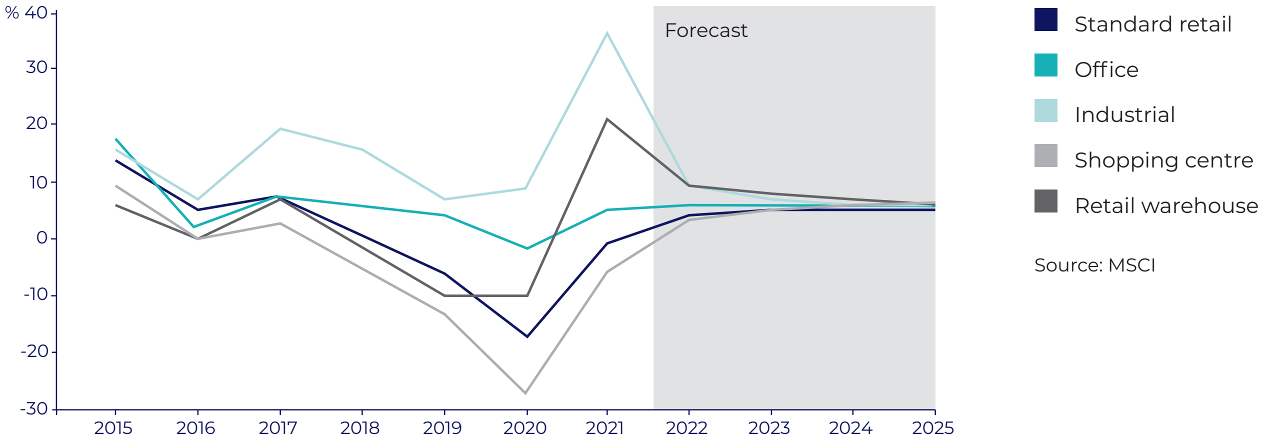
Economic backdrop

2021 witnessed the UK economy continuing to struggle with the effects of Covid-19 with businesses trying to cope with changeable government directives over lockdowns and work from home, as well as difficulties with supply chains and new challenges for imports and exports out of Europe. The marginal increase in interest rates at the end of the year dispelled the idea of negative interest rates and an element of confidence in the future and a return to normality crept back into the public domain, despite the forecasted inflation figures for 2022.

The forecasts for 2022 would indicate that there will be a strong investor market with investment volumes pushed high due to overseas and homegrown investors' pent-up demand and a limited supply of the right property. The industrial sector will see another year of strong rental growth and investor interest, whilst demand in the resurgent retail warehouse market will continue. The uncertainty will be the situation in Ukraine which will have an effect on confidence in the markets and the likely disruption to supply chains.

ESG will become an even more prominent factor in the considerations of occupiers, landlords and investors with lending institutions also setting out stricter criteria in this regard.

Total return by sector



Market trend	What this means for Highcroft	How are we responding?
Covid-19 The pandemic and the ensuing lockdown measures continued were a big obstacle for the majority of businesses in 2021.	Some of our tenants continued to be 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 Online retailing continued its dramatic growth in 2021.	The high street continued to be badly affected but there was a resurgence in the retail warehouse sector as lockdown sanctions were eased and people could shop at a social distance afforded by a retail warehouse.	We have reduced our exposure to the high street over the past few years and agreed a new lease on one of our retail warehouse units.
Economic backdrop It is forecast the UK will lead the economic growth in developed countries with an anticipated 5.8%. Inflation is expected to be 4.5% by the end of the year.	Trading will continue to be difficult for some of our tenants.	Our assets should perform if consumer spending increases as forecast.
Brexit There was a hangover from Brexit with the disruption of supply chains from/to the EU.	This potentially slowed turnover in certain sectors. Additionally, there was a reduction in supply of the workforce as EU nationals continued to return home.	Our investments have proved robust in these circumstances.

Market trend	What this means for Highcroft	How are we responding?
Warehouse		
The demand for industrial space in 2021 was the highest on record.	Yields are getting lower and therefore prices higher making it difficult to acquire new properties with an attractive return. We are looking to exploit development opportunities within our portfolio.	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' directive frustrated both occupiers and landlords in the office sector and has led to companies revising their office space requirements for the future.	Offices form less than 9% of our portfolio. During the year one of our tenants exercised a break option and we achieved a 27% rental uplift on review on our Oxford office investment.	The uplift in value following the rent review at the Oxford office has maintained the values in this sector.
Retail warehouses		
Retail warehouses witnessed a resurgence in 2021 with shoppers keen to return to the tills but on a socially distanced basis, which this sector afforded.	Our tenants in this sector – Wickes, Pets at Home, Dunelm, Halfords, PCWorld – continued to trade well.	Our rent collection rates were high and all of our units are occupied.
High street retail		
There were further receiverships and CVAs throughout 2021. Trading was tough in competition with online retailing.	We have a minimal exposure to the high street.	Where necessary, we work out payment plans to assist our tenants.
Leisure		
The leisure, food and beverage industries were again the most affected by the pandemic lockdowns.	This sector comprises approximately 12% of our portfolio. In 2020 one of our tenants went into receivership but the unit has since been re-let on a new 15-year lease.	68% of this sector of our portfolio has an average weighted unexpired lease term of 16 years.
Investment		
Total returns from the property market in 2021 were 20% a contrast to the previous year. This was largely driven by the industrial sector which showed returns of 38%.	There were limited opportunities for Highcroft considered worth pursuing, to show satisfactory returns.	We took a cautious approach during 2021 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 2021.	Overseas investors look mainly at central London, and trophy buildings.	These are not the sectors in which Highcroft looks to compete.
Investors still seeking secure, well-let investments on long leases, particularly in the warehouse/ distribution sector.	Prices for this category are still very keen.	Highcroft continues to look at alternative sectors whilst benefitting from the uplift in values in the industrial warehouse and retail warehouse sectors which constitutes 73% of our portfolio.

OUR BUSINESS MODEL

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 to select the best opportunities within our chosen market sectors. We then redevelop and refurbish these in order to increase the value of the property, therefore allowing us to secure higher rental incomes. We let our properties out on long leases, guaranteeing consistent income for our shareholders.

Our key resources and competitive advantages

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 13 to 15, 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.

Key activities

We are

Stakeholder focused   Market aware   Opportunity driven

We buy

We look for:

- Location
- Growth markets
- Potential for development

We are also looking to increase our average lot size, to uphold the quality of our tenants, grow the portfolio, and navigate market uncertainty.

We generate rental income

We work hard to ensure all our properties are income producing and enjoyed 100% occupancy for many years until our first vacant unit in March 2020. Our income stream is strong and derived from good quality tenants.

We maximise potential

We maximise the value of our portfolio through redeveloping and refurbishing properties to meet tenant demands and maintain relationships to increase lease length and rental income. This also enables us to make our properties more sustainable – see pages 40 to 43 for our sustainability journey and future plans.

We sell

We strategically sell smaller lots and properties in under-performing markets, like high street retail, to ensure long-term success – see pages 04 to 05 for the evolution of our property over the last five years

The value we generate

SHAREHOLDERS

Short term: Secure dividend income stream.

Medium term: Income growth in excess of inflation.

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

TENANTS

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

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

Long term: High quality environments 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.

READ MORE ABOUT **STAKEHOLDER ENGAGEMENT** ON PAGE **39**

READ MORE ABOUT **SUSTAINABILITY** ON PAGES **40 TO 43**

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 continued to evolve during 2021, 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 the actions that had been carried out to ensure effective cashflow management were adequate. Highcroft had taken advantage of the available deferral of £316,000 of VAT payments in 2020 and these were repaid prior to the deadline of 31 March 2021. In 2021 the board approved the reduction of its 2019 PID pool outstanding at 31 December 2019 by £1.6m, incurring a £304k tax liability but not prejudicing the group's REIT status. This enabled £1.3m of cash to be retained in the business at a time when our voids and void costs were increasing and the risks from the Covid-19 pandemic were still evolving. More information regarding PID pool can be found on page 28.

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.

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 continued to evolve.

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:

- STAKEHOLDER FOCUSED
- MARKET AWARE
- OPPORTUNITY DRIVEN

Strategic priority	How this priority will help us achieve our overall objective	Progress in 2021	Future opportunities	Link to risks – page 33
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.	We disposed of one leasehold industrial asset where there was little opportunity for future growth. This increased the cash available to pursue refurbishment and development opportunities in the portfolio.	As asset sourcing remains challenging in 2022, we are looking at opportunities within our portfolio for development and additional income generation.	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, thereby increasing the net property income available for distribution.	Average lot size increased to £4.2m from £3.7m wholly due to an increase 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 with excellent sustainability criteria.	1 2 3 4 5 8
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.	Our debt remains at £27.2m.	We have headroom with one lender of £2.8m and would consider additional gearing to fund further acquisitions alongside existing cash resources. One loan of £7.5m matures in May 2022 and a new replacement facility has been agreed.	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.	Following a reduction in dividends paid in 2020 due to Covid-19, dividends paid in 2021 increased 21% to £3.0m including a special dividend of £0.3m.	As a REIT we are required to distribute 90% of our net property income.	ALL

RISK KEY

1	Macro-economic outlook including Covid-19
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
8	Sustainability

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.

KPI key

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

1. MOVEMENT IN VALUE OF PROPERTY ASSETS

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 increased by £8,755,000, 11.1% on a like-for-like basis, which is slightly below the all-property MSCI result of 14.1%.

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 the current market.

2. MOVEMENT IN NET PROPERTY INCOME

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 £206,000, 3.8% in the year as a result of a decrease in rental income of £156,000 and increased property costs of £274,000, offset by a £224,000 reduction in bad debt charge.

LOOKING FORWARD

In 2022 we hope to build on the progress made in 2021 where we have dealt with the ongoing effects of the Covid-19 pandemic and taken steps to reduce bad debts and to deal with dilapidations and void costs arising at our empty units.

3. INCREASE IN NET ASSET VALUE PER SHARE

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 increased by 15.5% in 2021, primarily as a result of the increase in our property valuation and also the net increase arising from our revenue profits net of dividends paid in the year.

LOOKING FORWARD

The market remains strong in 2022, our asset base is good and we believe that it is positioned to perform well in the future.

4. ACHIEVE AN ADJUSTED EPS PER SHARE GROWTH THAT IS IN LINE WITH THE MARKET

This KPI was new in 2020

	Adjusted EPS % return	Weighted market return
2021	5.6	6.6
2020	5.8	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 2021 performance was lower than the MSCI income return for the year which reflects the costs associated with our listed status and the effect of voids and bad debt provisions.

LOOKING FORWARD

It is hoped that future performance will return to market levels.

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 93% occupancy at the year-end due to voids at two of our properties. An additional property became void and was re-let during 2021.

LOOKING FORWARD

We are carrying out improvement and remedial works at one of our void units to improve sustainability and letting potential.

We are pursuing lease renewal negotiations at our 2022 lease expiries.

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 signals the quality of our long-term income stream.

COMMENTARY ON PERFORMANCE

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

LOOKING FORWARD

The strength of the covenant will remain important in assessing new acquisitions and tenancies and forms part of our process in assessing expected credit losses.

READ MORE ABOUT **OUR RISKS** ON PAGES **32 TO 37**

READ MORE ABOUT **OUR PORTFOLIO** ON PAGES **08 TO 15**

OPERATING REVIEW

SIMON GILL
Chief executive

"In 2021 we improved our rent collection rate, over the various government lockdowns, and concluded a letting of one of our three vacant units resulting in a 93% occupancy rate within the portfolio."

Introduction

Throughout 2021 we continued our policy of managing our portfolio under close scrutiny and within the restrictions imposed by the enforcement and lifting of lockdowns which the market had to tolerate in 2020 and which had become a feature and frustration of everyday business. Whilst the great majority of tenants abided by their contractual liabilities, a very small minority took full advantage of the government's restrictions on enforcing rent payments. At Highcroft, via diligent management and good tenant liaison, our 2021 rent collection rate was very high at 97%.

The high street continued to suffer with the dramatic surge in online retailing, but retail warehousing witnessed a resurgence as shoppers were keen to get back to their favourite activity, and the easing of lockdown measures meant they could shop in socially distanced fashion which a warehouse affords, and a shop does not. High street retail accounts for less than 6% of our portfolio whilst retail warehousing is approximately 28%.

The work from home directive meant that the office sector suffered significantly as occupiers reviewed their future space requirements in light of long-term proposals for the workforce to work remotely for part of their week or, indeed, permanently. One of our office tenants exercised their break option in June 2021 which gave us the opportunity to reconfigure and refurbish the building in preparation for when the office letting market is active once again. Planning consent was granted just prior to Christmas and work commenced in February 2022.

Our industrial properties, which constitute 45% of our portfolio, performed well. We achieved a 20% uplift in rent upon lease renewal at our St Austell property and at the same time released a c.1.75-acre site for development. Plans are being prepared for a new 30,000 sq ft warehouse unit on the site.

Our occupancy reduced due to the additional void unit at our office property referred to above. Our contractual rent also reduced due to this void and also due to the sale of our Andover property. These reductions were offset by rent review uplifts at five of our properties and the new lease agreed at one of our Ipswich units where the previous tenant was in CVA in 2020.

READ MORE ABOUT **OUR MARKETPLACE** ON PAGES **18 TO 19**

READ MORE ABOUT **OUR BUSINESS MODEL** ON PAGES **20 TO 21**

PROPERTY INCOME

	2021	2020	2019	2018	2017
Contracted annual rent at year end	£5,700,000	£5,907,000	£6,253,000	£5,025,000	£4,966,000
(Decrease)/increase in year	(3.5)%	(5.5)%	+24.4%	+1.2%	+20.8%
Occupancy	93%	99%	100%	100%	100%

Investments

The industrial sector was, once again, the star of the property market show in 2021. Average prime rents for large distribution warehouses rose by 15.6% in the UK and a similar figure for smaller and multi-let units. This significant growth was exceeded for those units in the 'last mile' distribution category and also in London where industrial assets achieved c.25% annual increase.

This continuing strong demand for warehouse and distribution space, together with the increase in confidence and trading in the retail warehouse sector, led to an increase in our portfolio valuation of 11.1%, compared to the MSCI all property value increase of 14.1%. Our St Austell property increased by almost 50% over the 12 months commencing January 2021, due to a 10-year lease renewal and a 20% increase in rent. Other industrial assets in the portfolio increased in value in excess of 15%.

Following the settlement of rent review at our Oxford offices where the rent increased by 26.6%, the valuation rose by 16.9%. We let our one vacant leisure unit in Ipswich on a new 15-year lease which led to an increase in valuation of 23%.

Property acquisitions and disposals

We made one disposal during the year which was our Andover property let to Saint Gobain Building Distribution Limited (t/a Jewson). Our rationale for sale was the diminishing head leasehold interest that we held, with limited opportunity to regear on favourable terms, together with the fact that the investment had witnessed no rental growth over the past two reviews. We decided to take advantage of a strong industrial investment market and we sold our leasehold interest for £3,550,000 gross, a yield of 4.8%.

Sector balance

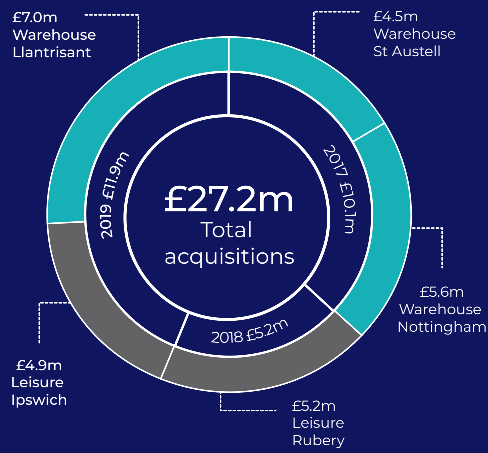
The sector balance in our portfolio is now, by valuation:

	2021 %	2020 %	2019 %	2018 %	2017 %
Warehouse	45	46	42	39	40
Retail warehouse	28	26	27	33	34
Leisure	12	12	14	9	3
Office	9	9	9	9	9
Retail	6	7	8	10	13
Residential	0	0	0	0	1
Total	100	100	100	100	100

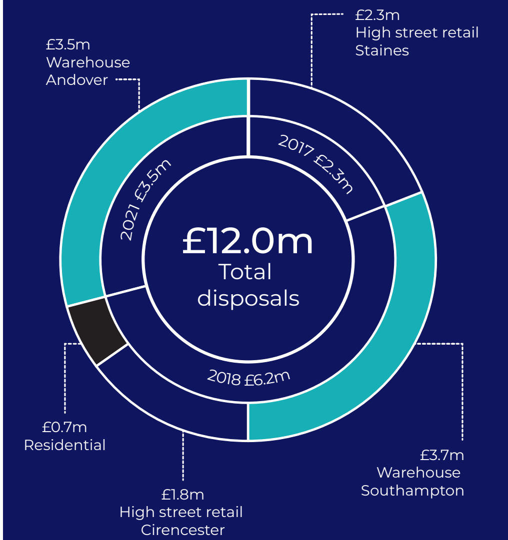
Over the past five years we have reduced our exposure to the high street, and will continue to do so, whilst concentrating on those sectors which will give our shareholders a better return. Further detail is provided in the financial review on page 28.

SIMON GILL
Chief executive
28 March 2022

FIVE-YEAR SUMMARY OF ACQUISITIONS AND DISPOSALS



Note: There were no property additions in 2020 or 2021 and no disposals in 2019 or 2020.



CONTRACTED RENT AT THE YEAR-END PA
£5.7m

REDUCTION IN CONTRACTED RENT PA
£0.2m

RENTAL PIPELINE
£32.2m

REDUCTION IN RENTAL PIPELINE
£2.6m

FINANCIAL REVIEW

ROBERTA MILES
Finance director

"Our 2021 performance showed a strong bounce-back in terms of investment returns whilst our profitability remained strong notwithstanding the effect of the Covid-19 pandemic on our gross and net rental income."

Overview

	2021	2020
Profitability		
Net rental income	£5,258,000	£5,464,000
Adjusted earnings per share	56.7p	67.7p
IFRS profit/(loss) for the year	£11,944,000	(£1,147,000)
Net admin expenses to gross rent	19.6%	17.6%
Investment returns		
Net asset value per share	1,275p	1,104p
Dividend per share*	55p	57p
Total shareholder return	29.6%	(18.5%)
Return on equity	19.4%	(1.90%)
Financing		
Net debt	£21,485,000	£23,905,000
Net debt to property value	25%	29%
Average cost of debt at the year end	3.1%	3.1%

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

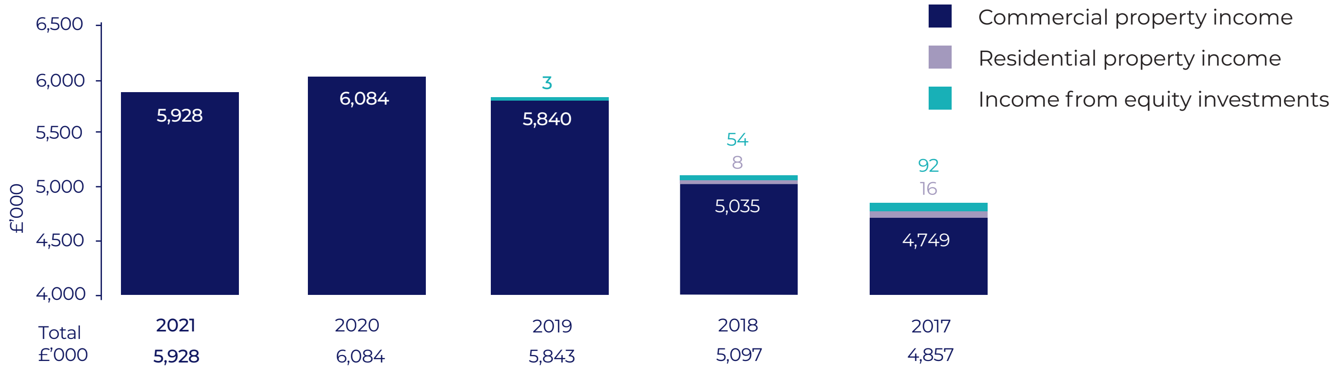
The group has again shown resilient performance during 2021, which continued to be dominated by the Covid-19 pandemic. Gross rental income decreased by 2.6% (£156,000) to £5,928,000, notwithstanding a one-off receipt of £165,000. This fall was primarily due to the voids at three of our properties and the sale of our Andover property. Property operating expenses increased by £50,000 to £670,000. These costs comprised a bad debt charge of £142,000 and property costs arising from our ongoing asset management, plus the costs arising from our void properties. Our administrative and finance costs also increased in the year, primarily due to the increased costs associated with being a listed company, and with our status as an associated undertaking together with an increase in directors' remuneration and in staff costs, partly due to the appointment of our new company secretary. Our underlying adjusted revenue profit before tax (excluding revaluation gains and gains on disposals) decreased by 7.4% as a result of the 3.8% fall in net rental income, the 8.9% rise in administration expenses net of the 4.6% fall in interest payable. The taxation charge of £304,000 has arisen from the reduction of our PID pool by £1.6m made as a result of the Covid-19 pandemic. Further information on the reduction of the PID pool is on page 88.

Net assets have increased by 16% to £66,117,000 and we have a low net debt to property value of 25%. The average cost of debt at the year-end remains 3.1% with the reduction in interest payable arising in the year due to the refinancing of two loans and an additional £1m of borrowing taken in 2020 at lower rates than the expiring facilities. Our investment properties increased in value by £8,755,000 (11% on a like-for-like basis).

We are proposing a final dividend for 2021 of 33p per share giving a total dividend for 2021 of 55p per share, an increase of 8% from the 2020 dividend of 51p per share (excluding the 2020 special dividend of 6p per share). Since 2009 (our first full accounting year as a REIT), our dividends have risen by a total of 112% – a compound annual increase of 6.4%. In the same period, our net assets per share have increased by 92% from £6.66 to £12.75 per share.

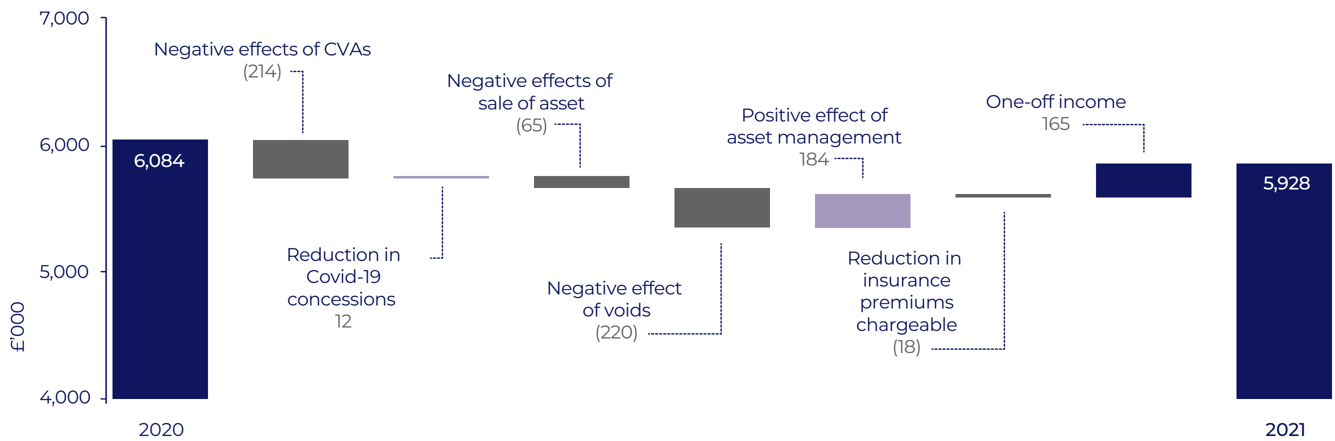
Income

Total income has decreased by 2.6%



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

	2021 %	2020 %	2019 %	2018 %	2017 %
Increase in gross rental income	(2.6)	4	16	6	22



Administration and other expenses

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Directors' remuneration	837	801	597	541	492
Auditor's remuneration including other services	64	58	35	32	31
Other expenses	263	210	194	163	140
Administration expenses	1,164	1,069	826	736	663
Net finance expenses	851	892	850	699	649
Total expenses	2,015	1,961	1,676	1,435	1,312

Director's remuneration rose primarily due to three years of the share element of the Highcroft Incentive Plan being expensed in the year (2020 two years), the 2021 Incentive Plan award being higher than for 2020, net of the decrease in base salary and Incentive Plan award reduction for David Kingerlee when he changed status to a non-executive director on 7 April 2021. More detail can be found in the remuneration report on pages 59 to 70. Other expenses have increased as a result of the rising professional costs associated with our status as a premium main marked listed entity and the additional professional work and fees required due to the increased risk of being an associated undertaking of Kingerlee Holdings Limited. We added a part-time company secretary to our small team in October 2021 in order to strengthen our internal governance and improve the robustness of our organisation. It is likely that these costs will continue to increase significantly in the future due to the governance and regulatory demands facing all listed entities. Net finance expenses decreased as a result of a full year's saving arising from our £4,000,000 loan refinancing and additional £1,000,000 loan drawn in 2020, where our new fixed interest rates were significantly lower than those on the maturing loans.

FINANCIAL REVIEW

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

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Profit before tax	3,243	3,503	3,983	4,445	3,287
Income tax (charge)/credit	(304)	–	72	67	61
Profit for the year	2,939	3,503	4,055	4,512	3,348

The decrease in the revenue profit for the year in 2021 was influenced by a decrease in net rental income of £206,000, an increase in administration expenses of £95,000 and a decrease in net finance expenses of £41,000.

Investments

Our investments increased due to valuation gains net of the disposal of our warehouse property in Andover.

Summary of property investment activities

During 2021 we disposed of our warehouse property in Andover. More details can be found on page 27.

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Acquisitions at cost	–	–	11,898	5,226	10,086
Net proceeds from disposals	(3,500)	–	–	(6,090)	(2,259)
Net (divestment)/investment (from)/into the property portfolio	(3,500)	–	11,898	(864)	7,827

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:

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Realised gains on investment property	250	–	–	967	1
Revaluation gains on investment property	9,925	2,525	739	2,600	3,365
Revaluation losses on investment property	(1,170)	(7,175)	(3,627)	(2,116)	(77)
Net revaluation gains/(losses)	8,755	(4,650)	(2,888)	484	3,288

The realised gain on disposals arose from the sale of our Andover property in August 2021.

Overall, our property portfolio increased in value during the year by £8,755,000, which represents 11.1% on a like-for-like basis. Our most significant revaluation gains related to one of our warehouse units where we negotiated a successful lease renewal during the year with a 20% increase in the basic rent, and one of our leisure units where the tenant had been in administration in 2020 and where we completed a new long-term lease in October 2021. The most significant revaluation losses were in our high street retail assets, where a further move in market sentiment, has resulted in a reduced valuation and there was also a significant decrease at our void office property. The revaluation movement is summarised by class of asset in the following table.

	Valuation movement	Movement to opening valuation less disposals
Office	350,000	4.7%
Industrial	5,500,000	14.6%
Retail	(570,000)	(10.3%)
Leisure	700,000	6.0%
Retail warehouse	2,775,000	12.9%
	8,755,000	11.1%

Financing and cashflow

Net cash generated from operating activities was £282,000 higher at £3,502,000. The increase arose from a £804,000 decrease in working capital requirement and a £41,000 reduction in finance expense, net of a reduced profit from operations before changes in working capital of £273,000 and an increase in tax paid of £290,000. 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.

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Opening cash	3,295	1,559	5,202	1,904	3,369
Net cash from operating activities	3,502	3,220	3,560	3,620	3,568
Investment acquisitions – property	–	–	(11,898)	(5,226)	(10,086)
Investment disposals – property*	1,925	–	–	6,090	2,259
Investment disposals – equities	–	–	724	1,333	477
Dividend paid	(3,007)	(2,484)	(2,829)	(2,519)	(2,183)
Net new bank borrowings	–	1,000	6,800	–	4,500
Closing cash	5,715	3,295	1,559	5,202	1,904

* For 2021 net of proceeds transferred into deposit given as bank security and included in other receivables in Note 10 to the consolidated financial statements.

Analysis of borrowing

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Handelsbanken term loans 2030	5,000	5,000	–	–	–
Handelsbanken term loans 2029	6,800	6,800	6,800	–	–
Handelsbanken term loan 2027	4,500	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
Total debt	27,200	27,200	26,200	19,400	19,400
Cash	(5,715)	(3,295)	(1,559)	(5,202)	(1,904)
Net debt	21,485	23,905	24,641	14,198	17,496
Net assets	66,117	57,121	60,721	62,384	59,977
Gearing (net of cash)	32%	42%	41%	23%	29%

Our weighted average cost of total debt was 3.13% (2020 3.13%).

The group has a facility letter in place to re-finance its loan that matures on 16 May 2022.

Outlook

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 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
28 March 2022

OUR RISKS

Risk framework

The company has a well-established risk management and internal control 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 34 to 37. 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 34 to 37.

Against the backdrop of economic and political challenges due to the continued impacts of the global Covid-19 pandemic, 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 2021 are set out on pages 34 to 37 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 trade agreement with the EU was completed just prior to the end of the transition period on 31 December 2020. Whilst all our properties are in the UK, our tenants operate global businesses with international supply chains and recruitment policies. During 2021 we have not become aware of any significant adverse effect on our tenants that may have an impact on our income and 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

During 2021 there has been a successful vaccine rollout in the UK and the potential risks from the ongoing pandemic have reduced significantly. There have, however, been some significant shifts in the way that people live their lives with more working from home and less shopping in the high street and an increase in online shopping. These cultural shifts have affected the property marketplace. In general, property valuations, particularly in the industrial sector, have performed well and recovered from much of the uncertainty factored into the 2020 valuations.

The board has established protocols for remote working for itself and its employees. In the move to new premises during the year, the related health and safety issues connected with the virus were taken into account in developing our workplace operating procedures.

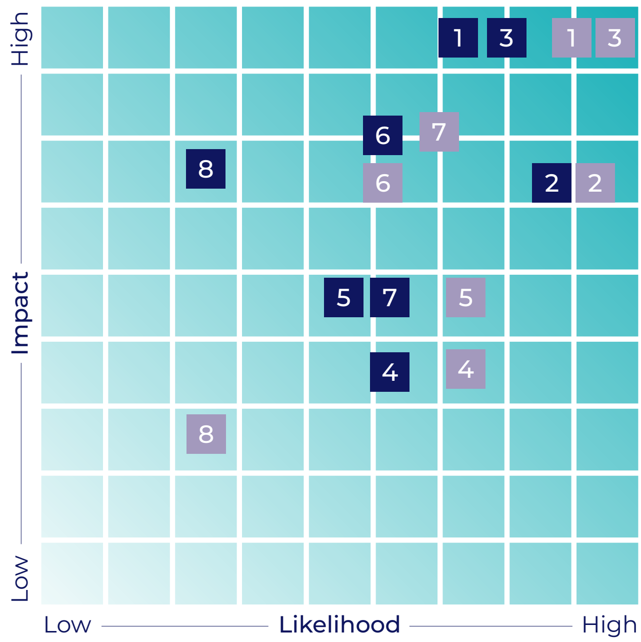
The board continues to pay close attention to the evolving situation and to mitigating the risks for our business and all our stakeholders.

The longer-term operations of the business affected by the sustainability credentials of the business

During the year the board agreed that expectations relating to environmental, social and governance issues had increased and as a result the sustainability credentials of the business were now a principal risk. Further details on the company's approach to identifying, assessing and managing climate-related risks are in the sustainability section of the report.

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.



Principal risk key

		Link to strategic objectives
External risks		
1	Macro-economic outlook including Covid-19	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
8	Sustainability	A D E

■ As at 7 April 2021 ■ As at 28 March 2022

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

OUR RISKS

	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 the potential global impact of the conflict in Ukraine, particularly in relation to future movements in interest rates and cost-of-living, 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 at the end of 2020 and the effect of the new trade deals could further 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 remains 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 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, thereby 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.

Commentary	Change in risk assessment in the year	Link to strategic priority
During 2021, the economic position in the UK improved from the severe uncertainties experienced in 2020 because of the pandemic. In addition, the successful vaccine rollout and move away from the imposition of lockdowns will benefit our tenants. However, interest rates have now started to rise, inflation is surging and there is still a level of uncertainty regarding the future outlook. Our property valuations have risen as a result of the improvement in market sentiment during 2021. In 2022, we will continue to carry out our controls, management and mitigation procedures.	▼	A B E
The Brexit transition period expired on 31 December 2020. There have been issues arising for our tenants, exacerbated by the Covid-19 pandemic and primarily related to supply chain costs and delays. However, these issues are not causing a fundamental effect on our tenants. Listed real estate company compliance requirements continue to increase. In 2021, we strengthened our team by splitting the role of finance director and company secretary and further enhancing our reporting procedures.	▼	A B E
We have 21 properties with 27 tenants and 25 individual covenants. At the year-end two of our properties are void representing 6.6% of the annual rent roll. In addition one unit in a multi-let property representing 3.6% of our annual rent roll became void in the year as the result of a CVA and has been re-let. Our bad debt charge for the year is £143,000 which represents 2% of gross rental revenue. The weighted average lease expiry is 5.6 years, which provides a reasonable longevity of income. In 2022, we will continue to carry out our frequent reviews and controls.	▼	A B E
During 2021, in the light of the improving macro-economic situation, the property market improved and transaction rate increased. We took advantage of this to dispose of one long-leasehold asset. More details on page 27. In 2022, 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 2021, there were no changes to our debt. Our next loan maturity is in May 2022 and a new replacement facility has been agreed. In 2022, we will carry out our annual review with our current lender and continue to carry out our monitoring procedures.	▼	D E

OUR RISKS

	Principal risk	How we manage/mitigate the risk
	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 reviews the key advisers at least annually. Future recruitment may require the use of a head-hunter to source candidates with the appropriate skillset.
8	**Sustainability** If the group fails to address climate-related risks in the short, medium and long term, the company's assets and its licence to operate will be challenged. Identifying future opportunities for operating and the ability of the executives to manage these risks are also factors.	A separate strategic session on sustainability was held by a sub-group of the board during the year. This covered the climate-related risks and opportunities to the business.

Commentary	Change in risk assessment in the year	Link to strategic priority
During 2021, a year still dominated by the global pandemic, our capital performance was close to the market and our rent collection was 97%. In 2021, we held 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 third year of operation of the Highcroft Incentive Plan, designed to enhance the linkage between director remuneration and performance. In 2021, we split the role of finance director and company secretary to further reduce risk. An experienced part-time company secretary was appointed with the use of a head-hunter. The remuneration policy was reviewed in the year by the remuneration committee and no changes were considered necessary.	▼	A B C D E
The board agreed a series of initiatives which included evaluation of the EPC risk strategy for the portfolio and a series of stakeholder engagements intended to take place over 2022. Construction at St Austell will incorporate certain sustainable features. Further details are available on page 41.	▶	A B C D E

VIABILITY STATEMENT

Assessment of viability

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 includes the dates of expiry of our next two expiring term loans, which represent 40% 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 and noted the agreement of a facility letter to re-finance the loan maturing in 2022.

The board also conducted a sensitivity analysis, considering the potential impacts of one, or more, of the group's principal risks, as set out on page 33, occurring. In particular the board considered the effect of the following sensitivities during the forecast period:

- a 20% drop in income during the forecast period,
- a 100% increase in the financing cost of the debt maturing in 2022,
- a 25% increase in our proposed capital expenditure programme, and
- the effect of the non-release of the £1.6m held by Handelsbanken plc as cash security for borrowing.

Viability statement

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 2026.

GOING CONCERN STATEMENT

Assessment of going concern

The directors have assessed the group's ability to continue as a going concern. This includes a review of the continuing uncertainties created by the ongoing Covid-19 pandemic, and the potential global impact of the conflict in Ukraine, 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 2021 including its cashflows, liquidity and borrowing facilities are set out in the financial statements with additional information in the financial review on pages 28 to 31. Note 18 to the accounts on page 95 includes information on the group's financial instruments and on its approach to credit and liquidity risk.

At 31 December 2021, the group had £5.7m 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 a secured deposit of £1.6m which should become available in May 2022, an undrawn overdraft facility of £1m and additional headroom of £1.8m. The first facility maturity is in May 2022 for £7.5m and the company has an agreed facility letter in place to replace this with a new £7.5m fixed-term loan. No other renewals fall due before August 2026. The group has a modest gearing of 32% and its net debt to investment property valuation is 23%.

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 gave additional property as security during the year. The group disposed of its Andover property, which was charged to the bank, during the year. In addition, to maintain the LTV covenant, £1.6m of the proceeds from sale were placed into a secured deposit account. It is anticipated that these funds will be transferred to cash at or before the time that the maturing loan is financed in May 2022. In addition, one further property will be charged to the Handelsbanken PLC in 2022.

The group has a secure property income stream from 27 tenants with no undue reliance on any one tenant. The Covid-19 pandemic has, however, resulted in us being unable to quickly re-let our unit in Oxford High Street that went void in March 2020, nor have we been able to secure a new tenant for our Cardiff property where the lease ended in June 2021. We have, however, managed to re-let our leisure unit in Ipswich where the previous tenant went into CVA in 2020. 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 three tenants with whom we are in detailed discussion regarding their arrears positions and with one of these we have taken further action to recover the sums owed to us. Notwithstanding the fact that Covid restrictions are easing in England and Wales and the Ukraine conflict does not directly impact our assets which are all in England and Wales, there remain uncertainties regarding 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 15% of the 2021 cashflow respectively.

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 ongoing Covid-19 pandemic and the potential global impact of the conflict in Ukraine onto their forecasting and debt covenant reviews and considered scenarios including:

- Rent collections continuing to be reduced throughout 2022, 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 and global conflict 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, on page 85, 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.

Going concern statement

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.

STAKEHOLDER ENGAGEMENT

"Effective engagement enables the board to ensure stakeholder interests are considered when making decisions."

CHARLES BUTLER
Chief executive

Section 172(1) statement

The board of directors confirms 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 an ongoing dialogue with a wide group of stakeholders, as summarised below.

Stakeholder	Why is it 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 52	• Growth strategy and healthy returns whilst meeting our environmental and social responsibilities	We had several meetings with our two main shareholder groups in the year and sought their views on strategy and risk
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	We had direct dialogue with 13 of our tenants and also with prospective tenants during the year and considered their views in our decision-making With the general concern over the environment, we took a 'green' approach to our proposed development in St Austell with the ambition of providing a BREEAM very good building
Our employees	We value the input and insight that all team members can provide	As we only have only two employees outside the board, our engagement is informal	• Wellbeing • Health and safety • Personal development	Informal reviews were held with the employees by a director who is not their 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	A director took key responsibility for each key relationship and ensured that communication and feedback loops were appropriate and effective
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, in 2021, their Covid-19 related issues, either directly or via our asset managers	• Making a positive contribution to communities and the environment • Charitable donations (detailed on page 43)	Quarterly meetings with asset managers that include environmental matters as an agenda item

SUSTAINABILITY

> *"During the year we have undertaken deep dives into our strategy and approach to climate change and strengthened our governance and risk management processes."*

SIMON GILL
Chief executive

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 39.

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 and the ultimate responsibilities of our tenants for power supplies within our investment properties, means we fall below the de minimis limit for required reporting under the SECR.

The taskforce on climate-related financial disclosures (TCFD)

In accordance with Listing Rule 9.6.8 (8) requiring premium-listed companies to include a statement in the annual report confirming the extent to which they have made disclosures consistent with TCFD on a comply or explain basis, we have summarised our compliance to date with the TCFD guidelines on the following pages. Our focus for the coming year will be to further analyse and prioritise the strategic and financial impacts of our most material climate-related issues to inform our strategy and manage these risks and opportunities across our businesses.

READ MORE ABOUT **OUR PORTFOLIO** ON PAGES **08 TO 15**

READ MORE ABOUT **OUR RISKS** ON PAGES **32 TO 37**

TCFD Theme	Recommended Disclosure	Our Approach
Governance	Disclose the organisation's governance around climate-related risks and opportunities	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	• During the year our audit committee, a principal committee of the main board, oversaw the management of our climate-related risks and opportunities. It was agreed that expectations relating to environmental, social and governance issues had increased and as a result the sustainability credentials of the business were now deemed a principal risk. Separate sessions on sustainability were also held by a sub-group of the board, to ensure that the company adopted a strategic approach to planning for climate change. These sessions considered what additional expertise may be required to assist the board in addressing the challenges posed by climate-related issues and the board will continue to regularly analyse its approach and the data available, recognising these matters will evolve.
	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. Through engagement with our property managing agents, Workman LLP, work is underway to identify the most appropriate strategy for reducing the impact on the environment of the company's properties and promoting the health and wellbeing of occupiers and visitors and generating positive social value within the local community. • Future developments will be undertaken with the intention of identifying the opportunities available to build and produce properties that are aligned with both our sustainability commitments and those of our prospective tenants. In particular our development project at St Austell will consider sustainability as a key criterion and where we are aiming to construct a BREEAM very good or excellent building.

SUSTAINABILITY

TCFD Theme	Recommended Disclosure	Our Approach
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	The board considers climate change as part of its decision making, particularly around acquisitions and refurbishment projects. As part of its approach to evaluating the climate-related risks and opportunities, it will assess which of those could have a material financial impact on the organisation.
	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 (5–15 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 properties for acquisition and how we and our tenants develop and maintain existing ones. • As part of our assessment of our existing portfolio, we consider the geographical location, access to utilities and other relevant factors when evaluating any climate-related risks and opportunities on properties within our existing portfolio. • We will be evaluating the company's EPC risk strategy over the coming year with a view to identifying appropriate actions for particular properties.
	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	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Potential climate change risks are identified and monitored as part of our wider risk management procedures. As noted, the sustainability credentials of the business are deemed to be a principal risk.
	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. During 2021, as part of the overall review of principal and emerging risks, the audit committee and in turn the board considered the position on the sustainability credentials of the business and a sub-group of the board met to consider the specific issues involved.
Metrics & targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Due to our size and the limited amount of carbon emissions that we are able to influence as a business, we are still considering the extent of metrics and targets that will be appropriate for us to adopt. As we evolve our strategy to addressing climate-related risks and opportunities, it is intended that identifying metrics and targets will form part of this.

The environment – energy efficiency actions taken during 2021

During 2021, 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;
- The weighted average of the EPCs on the 19 of our 22 properties where we have certificates remains at a C or above. It is currently 66 which is a C rating. The only change in the year arose from the weighting calculation as relative property valuations moved;
- We continue to adopt a paperless strategy with our shareholders, which has reduced our paper mailings to shareholders by 64% in the last three 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.

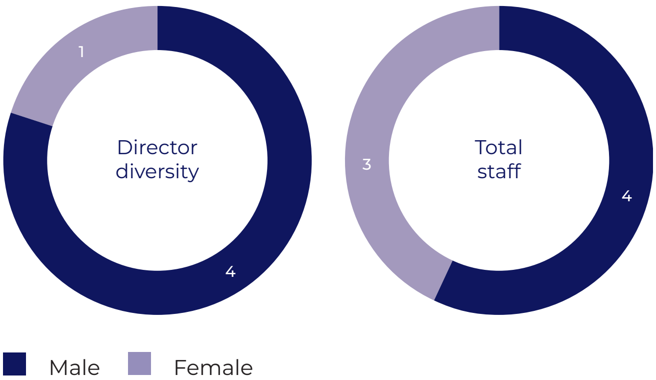
Employee alignment

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 62.

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 48 and 49.

At 31 December 2021, the average composition of the group's employees was as follows:



Communities we serve

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

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

Charity

During 2021, donations were made to local and national charities totalling £12,000. These charities support the sick, terminally ill and disadvantaged. Examples of our support include:

- Contributions towards the funding of palliative care in three 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 2022, 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 16 to 43 was approved by the board and signed on its behalf.

SIMON GILL

Chief executive

28 March 2022

GOVERNANCE

Contents

RETAIL WAREHOUSE – GRANTHAM

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

> *"The effective delivery of our strategy, the sustainability of our business and the creation of value for all our stakeholders continues to be supported by our governance structures and processes."*
>
> **CHARLES BUTLER**
> Chairman

Our corporate governance

On behalf of the board, I am pleased to present 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 key values and the board endeavours to follow the appropriate guidance and rules. The board maintains good governance at the centre of all its decisions and discussions and our framework continues to serve the Company well. The effective delivery of our strategy, the sustainability of our business and the creation of value for all our stakeholders continues to be supported by our governance structures and processes.

Compliance with the UK Corporate Governance Code

The board acknowledges the intention of the 2018 UK Corporate Governance Code (the Code) in promoting the value of good corporate governance to enable long-term sustainable success. To the extent that is reasonable and practical for a company of our size and structure and the nature and scale of our activities, these are applied. The company, therefore, complies with all principles and provisions of the Code with the exception of the areas listed on page 47.

These non-compliances relate to the size of the board and employee base and the board considers our governance structures and processes are in line with our corporate culture and are fit for purpose. 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 22 to 23. All of the board support this strategy and ensure that any matters that it approves are in line with this strategy.

READ MORE ABOUT **OUR STAKEHOLDER ENGAGEMENT** ON PAGE **39**

READ MORE ABOUT **OUR BOARD** ON PAGES **48 TO 49**

We recognise the importance of stakeholder engagement 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. Given the constraints that continued to be faced during 2021 due to Covid-19 restrictions, our annual general meeting (AGM) was again held with the minimum quorum in attendance. We continued to offer 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. Following changes to the Articles of Association at the 2021 AGM, we will look to offer, where appropriate and cost-effective, greater flexibility on shareholder participation at future AGMs. We have decided that the 2022 AGM will be held face to face in London on 18 May 2022 and we look forward to welcoming shareholders to that meeting.

This governance report on pages 44 to 73 sets out in more detail our compliance with the Code during the year and explains our 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.

Board and committee attendance for the year ended 31 December 2021	**100%**
Female representation on our board	**20%**
Independent directors (including chairman)	**40%**

Key governance activities in 2021

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

- a separate strategic session on sustainability, identifying the climate-related risks and opportunities to the business and a series of initiatives;
- the 2021 annual general meeting (AGM);
- evaluation of the board; and
- continued review of the issues associated with David Kingerlee's change of status to shareholder representative.

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	You can read about the **board's effectiveness** on pages 50 to 51
	B. Purposes, values and culture	You can read about **our purpose values and culture** on pages 22 and 40
	C. Governance framework and board resources	Learn more about **our governance framework and board resources** on ages 50 to 51
	D. Stakeholder engagement	Learn more about **our engagement with stakeholders** on page 39
	E. Workforce polices and practices	Learn more about **our workforce policies and practices** on page 51
2. Division of responsibilities	F. Board roles	You can read about the **division of responsibilities** on page 51
	G. Independence	Learn more about the **board independence** on pages 48 to 49
	H. External commitments and conflicts of interest	You can read about the **board's other roles** on pages 48 to 49
	I. Key activities of the board in 2021	Learn more about the **board's key governance activities** on page 46
3. Composition, succession and evaluation	J. Appointments to the board	You can read about the **work of the nomination committee** on page 57 to 58
	K. Board skills, experience and knowledge	Learn more about **our board** on pages 48 to 49
	L. Annual board evaluation	You can read about the **board's evaluation process** on page 51
4. Audit, risk and internal control	M. Financial reporting external auditor and internal audit	You can read about **our audit process** on pages 55 to 56
	N. Review of the 2021 annual report	Learn more about the **our review of the annual report** on page 55
	O. Internal financial controls Risk management	You can read more about our approach to **risk management** on page 56
5. Remuneration	P. Linking remuneration with purpose and strategy	You can read about **the Highcroft Incentive Plan** on page 62
	Q. Remuneration policy	Read more on **our remuneration policy** on pages 61 to 62
	R. Performance outcomes in 2021 Strategic targets	You can read about the **board's effectiveness** on pages 50 to 51

Throughout the financial year ended 31 December 2021, the company fully complied with all the provisions of the Code, except for five of the 41 provisions and an explanation is provided below. The board agrees that, due to the size of its board and the fact that there are only two non-board employees, 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	The Remuneration Committee considered the matter during 2021 and concluded that an increased vesting period would be a disincentive to the executive directors
41	There should be engagement by the workforce by remuneration committee	None appropriate	As there are only two employees other than the board, it is not believed that such engagement and disclosure thereof would add value to shareholders

BOARD OF DIRECTORS

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 continue 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 University Treasurer at the Royal Agricultural University, Cirencester, where his remit includes financial strategy and balance sheet management. Until recently, he was the Finance Director there, where he oversaw 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 continues to provide 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
Non-independent non-executive director

ROBERTA MILES
Finance director

APPOINTMENT TO THE BOARD

David joined the group as an executive director in September 1996. With effect from 7 April 2021, he became a non-independent non-executive director.

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 the 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 7 April 2021, David became a non-independent non-executive director. In this role, he does not sit on any board committees.

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. From October 2021, she continued in her role as finance director having relinquished her role as company secretary.

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.

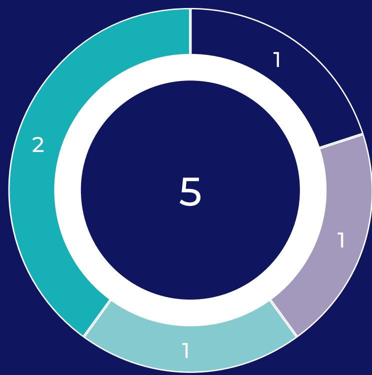
KEY

Chairman
Member
Executive committee
Audit committee
Nomination committee
Remuneration committee

Effective board

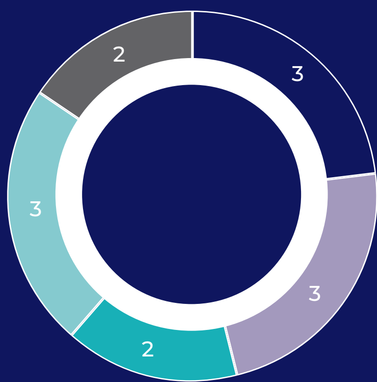
Our board is composed of highly skilled professionals, all of whom continue to bring a range of skills, perspective and corporate experience to our boardroom.

MEMBERSHIP OF THE BOARD



- Non-executive chairman
- Independent non-executive directors
- Non-independent non-executive directors
- Executive directors

EXPERIENCE OF THE BOARD



- Finance
- Mergers and acquisitions
- Property
- Corporate governance
- Technology

CORPORATE GOVERNANCE

Governance framework

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 available on the group's website www.highcroftplc.com.

Chairman: Charles Butler

Comprised: Two executive and three 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 the company secretary and is 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 independent 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 audit process.	This committee is comprised of the independent non-executive directors. Roles: Remuneration policy, setting of directors' remuneration packages, agreeing incentive plan targets and outcomes.	This committee is comprised of the independent non-executive directors. Roles: Recommends board appointments, succession planning, reviewing board composition, skills and diversity and performance evaluation.

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	8/8
Simon Costa	8/8
Simon Gill	8/8
David Kingerlee	8/8
Roberta Miles	8/8

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

- Leads the board ensuring it operates effectively and in accordance with good governance.
- Sets board agenda for meetings and ensures that adequate, accurate and 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.
- Maintains a dialogue with shareholders.

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.

Non-executive director

- Brings an external perspective, constructive challenge 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

- 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.

As previously reported, with effect from 7 April 2021, David Kingerlee changed his status from executive director to non-independent non-executive director.

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 50, 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 continue to 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 independent 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. As noted in the nomination committee report, on page 57, during the year Anne-Marie Palmer was appointed as company secretary, providing further support to the board on corporate governance.

Workforce policies and practice

Since there are only five directors and two employees, 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. During the year, the board conducted a self-performance evaluation by way of a questionnaire, which was facilitated by the company secretary. The questionnaire was designed to evaluate the effectiveness of the board and its committees, as well as identify areas for improvement. The results were discussed by the board and action points created to ensure that any areas needing improvement were prioritised and addressed. The effectiveness of the actions taken from the last evaluation were also analysed. The board considered itself to be generally effective in all the key areas identified in the questionnaire and areas for improvement identified were: enhancing stakeholder engagement and board training.

CORPORATE GOVERNANCE

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 21 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 72.

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.

These authorities will expire in 2024, unless previously revoked by the Company.

During 2021, new ordinary shares with a nominal amount of £2,131 were allotted under these authorities in satisfaction of the 2020 awards under the Highcroft Incentive Plan, leaving £60,476 of authorities remaining.

REPORT OF THE AUDIT COMMITTEE

Audit, risk and internal control

SIMON COSTA
Chairman of the audit committee

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

Main responsibilities

In line with the authority delegated by the board, the audit committee has the following 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.

I am pleased to introduce the audit committee report for the year ended 31 December 2021. 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 chair 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	3/3
Charles Butler	Member	3/3

The committee meets regularly during the year, in line with the financial reporting timetable and, in 2021, met three times for routine business. Roberta Miles, as finance director, attends part of each meeting and the external auditor attends all meetings. The committee has an agenda item at each meeting to discuss business without any executive directors being present.

In 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, primarily 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: www.highcroftplc.com.

REPORT OF THE AUDIT COMMITTEE

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 2021, 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 (2020 £18,000 and £16,000). The audit committee analysed the reports, reviewed the summary of the work of the executives in reviewing the valuer's work, 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 fictitious 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 considered the controls in place to ensure compliance with REIT tests. In particular, they reviewed the compliance with the distribution requirement and the impact of forecasted results and trends on this criterion. They also reviewed the non-close company status requirement and the professional advice that had been taken on this during the year.	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 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 38.

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 sensitivities identified and stress tested 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 37.
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 32 to 37.	The committee concluded that the potential impacts of Covid-19 had been appropriately considered.

As noted in the 2020 annual report, David Kingerlee announced 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 complete a group audit questionnaire for the auditors of Kingerlee Holdings Limited's auditor, and consider the additional risk of this status to the financial reporting process. Kingerlee Holdings Limited has agreed to pay, each year, any additional fees that relate to the impact of this change. During 2021, the audit committee recommended to the board that Mazars undertake a full interim review for the first time in 2021 due to the additional risks arising as a result of Highcroft's status as an associated undertaking.

The committee assessed 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 ensured that the board continued to present 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 73, and that of the auditor on pages 76 to 80.

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 interim review, for which the fee is £10,000. The audit fee is £54,000. 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 2022 in line with regulation.

REPORT OF THE AUDIT COMMITTEE

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). 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.

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 2022 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 32.

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

28 March 2022

REPORT OF THE NOMINATION COMMITTEE

Composition, succession and evaluation

CHARLES BUTLER

Chairman of the board and of the nomination committee

"Our role in ensuring the board has the appropriate balance of skills, experience and knowledge enabling the company to achieve its objectives remains a key responsibility of the 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

Appointment of company secretary

Having considered the expanding remit of the finance director and company secretary, it was agreed that recognising the significant increase in governance and financial reporting requirements, that the role would be split. During the year, an independent search consultant was engaged to assist with the appointment of a company secretary. A comprehensive appointment process was undertaken and recognising the skills required for the role, Anne-Marie Palmer FCG was appointed with effect from 5 October 2021. Anne-Marie has 20 years' experience as a chartered secretary advising listed companies, including those with the property sector, and is working on a part-time basis for the Company.

Succession planning

During the year, succession planning remained a key focus for the committee. The committee assessed the skills and experience required to meet the organisation's current and future needs, with the aim of ensuring business success and long-term shareholder value. The committee will continue to review the need to secure any particular or specific skills.

REPORT OF THE NOMINATION COMMITTEE

Consideration was given to succession planning to fill key roles in the short, medium and long term and these plans were written down so that they continue to be reviewed on a regular basis.

Board composition and tenure

In accordance with the Code, all directors offer themselves for reappointment on an annual basis at the AGM. The board carried out an effectiveness evaluation during the year and the committee concluded that each of the directors 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 each director be re-elected. 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.

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. As a company consisting of five directors and two employees, our diversity in terms of female appointments is 43% as at 31 December 2021.

CHARLES BUTLER
Chairman of the nomination committee
28 March 2022

DIRECTORS' REMUNERATION REPORT

Policy, practices, supporting strategy

SIMON COSTA
Chairman of remuneration committee

"The Committee and Board believes that the remuneration policy remains appropriate in motivating and rewarding executive directors, as well as aligning their interests with the company's strategy and the interests of shareholders."

Main responsibilities

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

- **Role**
  – assist the Board to fulfil its responsibility to shareholders to ensure that executive remuneration is designed to support strategy and promote sustainable success and is aligned to company purpose and linked to delivery of the company's long-term strategy.
- **Remuneration Policy**
  – is responsible for determining and agreeing with the Board the policy for the remuneration of the executive directors and 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

I am pleased to introduce the remuneration report for the year ended 31 December 2021. 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 2022.

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	3/3
Charles Butler	Member	3/3

The board considered our independence during the year and concluded that both members were 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:

- Review the current policy in the context of the ongoing appropriateness for the company and evolving practice and determining its proposal to the 2022 AGM;
- 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 2021; and
- Begin to review the level of directors' fees for 2022. 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 2021.

REMUNERATION AT A GLANCE

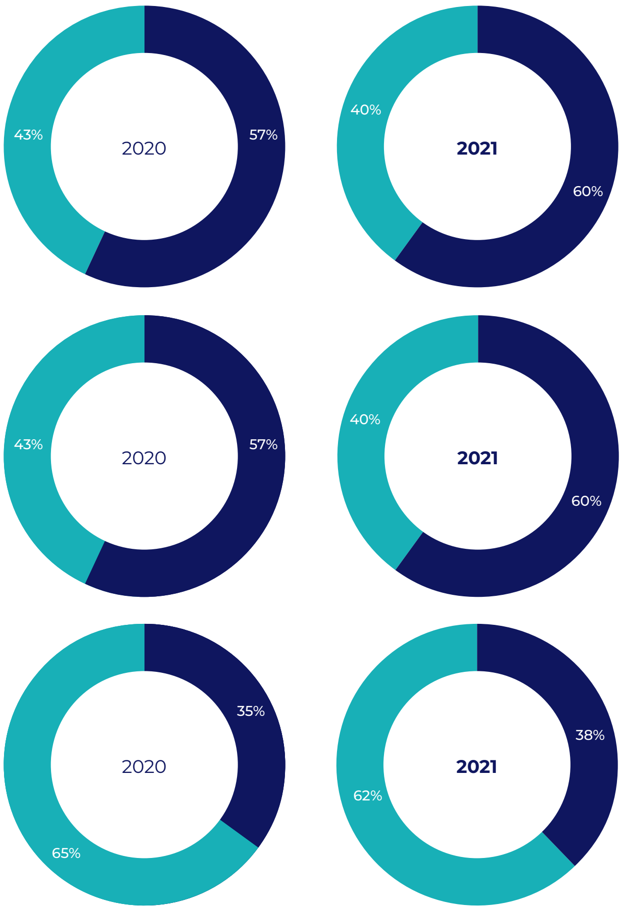
Remuneration philosophy

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 and remained in place in 2020 and 2021. Having considered the remuneration policy during the year, the Committee and Board have determined that the existing policy remains appropriate in that it is designed to support strategy and to promote sustainable success. The only amendment to the existing policy has been to remove the separate section referring to David Kingerlee's entitlement under the Highcroft Incentive Plan, as following his transition to non-executive director, he is no longer eligible to participate. As a non-executive director, David Kingerlee's remuneration is governed in the same manner as for all non-executives. The policy will be proposed to shareholders for approval at the 2022 AGM. The Committee consulted major shareholders on renewal of the policy and no concerns were raised.

Total remuneration – split between fixed and performance-linked elements



Simon Gill	2020	2021
Fixed	43%	40%
Base salary	42%	39%
Pension and other benefits	1%	1%
Performance-linked	57%	60%
Highcroft Incentive Plan – cash	34%	34%
Highcroft Incentive Plan – share award	23%	26%

Roberta Miles	2020	2021
Fixed	43%	40%
Base salary	42%	39%
Pension and other benefits	1%	1%
Performance-linked	57%	60%
Highcroft Incentive Plan – cash	34%	34%
Highcroft Incentive Plan – share award	23%	26%

David Kingerlee (for the period to 7 April 2021 when he became a non-executive director)	2020	2021
Fixed	65%	62%
Base salary	63%	60%
Pension and other benefits	2%	2%
Performance-linked	35%	38%
Highcroft Incentive Plan – cash	35%	38%
Highcroft Incentive Plan – share award	–	–

Single total figure of remuneration for executive directors for year ended 31 December 2021

* David Kingerlee also received remuneration as a non-executive director in 2021 (with effect from 7 April 2021).

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. During the year, the committee and the Board considered the elements of the policy and its link to strategy and long-term sustainable success and concluded that the policy's structure and operation remained appropriate, and the existing policy will be proposed to shareholders for approval at the 2022 AGM. An ordinary resolution to approve this is 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

REMUNERATION AT A GLANCE

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 that 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
			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.	
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 of employment 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 directors					
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

DIRECTORS' REMUNERATION REPORT

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 policy are transparent, comprising simple incentive structures that are commonplace in the market and in line with best practice remuneration provisions. Key shareholders were consulted when the remuneration policy was initially adopted and are consulted prior to any updated policy being put to an AGM for approval, which happens at least every three years. Our two employees are 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.

DIRECTORS' REMUNERATION REPORT

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

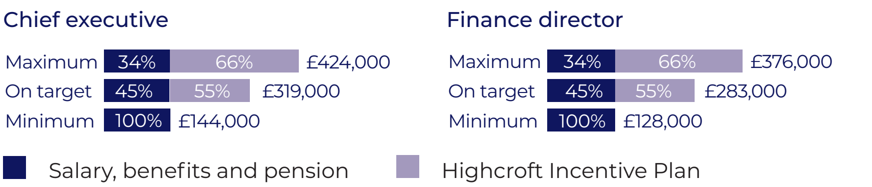
The remuneration committee will honour any contractual arrangements. When determining any loss of office payment for a departing individual, the remuneration committee will always seek to minimise cost to the company, whilst seeking to address the circumstances at the time.

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 2022.



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 are two other part-time employees in the company, a company secretary and a management accountant, whose salaries are decided by benchmarking to the market, their skills, experience, and contribution. The directors did not consult with these employees 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 76 to 80.

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
David Kingerlee*	12 September 1996	7 April 2021	6 April 2024	Six months

* Prior to 7 April 2021, David Kingerlee was an executive director.

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

Annual report on remuneration for the year

Relative importance of spend on pay

The directors are the only employees of the group, other than two part-time employees, the company secretary and the management accountant.

	2021 £'000	2020 £'000	2019 £'000
Directors' remuneration	737	703	534
Increase in director's remuneration*	4.8%	31.6%	10.4%
Distributions paid to shareholders	3,007	2,484	2,829
Directors' remuneration as a % of distributions paid to shareholders	24.5%	28.3%	18.9%
Cash element of directors' incentive plan award as % of distributions paid to shareholders	7.2%	8.4%	6.7%

* In 2020, the accounting treatment for the PAYE/NI on the share award was altered – see page 67 for more details.

Directors remuneration 2021 (audited)

	2021					2020				
			Incentive plan					Incentive plan		
	Base salary £	Pension/ pension allowance £	Cash award £	Share award* £	Total £	Base salary £	Pension/ pension allowance £	Cash award £	Share award* £	Total £
Charles Butler	50,000	–	–	–	50,000	49,000	–	–	–	49,000
Simon Costa	38,000	–	–	–	38,000	37,000	–	–	–	37,000
Simon Gill	127,500	3,825	111,435	83,931	326,691	125,000	3,750	100,000	68,171	296,921
David Kingerlee	28,250	285	5,928	–	34,463	38,000	1,125	20,944	–	60,069
Roberta Miles	112,500	3,375	98,325	73,756	287,956	110,000	3,300	88,000	58,983	260,283
	356,250	7,485	215,688	157,687	737,110	359,000	8,175	208,944	127,154	703,273

* Element relating to the financial year including, where appropriate, the proportion of previous years' award expensed in financial year. In 2020, the accounting treatment for the PAYE/NI on the share award was altered – see page 67 for more details.

DIRECTORS' REMUNERATION REPORT

Highcroft Incentive Plan 2021

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 (for the period to 31 March 2021).

The 2021 award was based on four performance measures as shown in the table below. The financial performance measures are related to the weighted average relevant MSCI measure, which is deemed to be an appropriate relevant market index. The relative weighting, thresholds and outcomes together with the 2021 outcome for the individual directors is tabulated below.

							Award as % of base salary				
							Simon Gill		Roberta Miles		David Kingerlee
Performance measure	Weighting	Threshold	% of maximum payout	Performance agreed	Agreed % outcome	Actual % of maximum awarded	Cash	Deferred shares	Cash	Deferred shares	Cash
Adjusted NAV per share movement	30%	6.4% 25.8%	25% 100%	22%	81%	24.3%					
Adjusted EPS growth	30%	2.7% 10.6%	25% 100%	10%	92%	27.6%					
Gross rent (ERV) growth	15%	1.0% 4.0%	25% 100%	3%	70%	10.5%					
Strategic personal objectives	25%										
Simon Gill					100%	25%					
Roberta Miles					100%	25%					
David Kingerlee					0%	0%					
Total	100%										
Simon Gill						87.4%	87.4%	87.4%			
Roberta Miles						87.4%			87.4%	87.4%	
David Kingerlee*						62.4%					62.4%

*For the period to 31 March 2021.

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
2021 award	3.46	4.46

		Deferred share element					Expensed in						
		Base salary £	% of base salary	Gross pay put through payroll £	MV of shares issued @53%	PAYE/NI payable on award*	2019 £	2020 £	2021 £	2022 £	2023 £	2024 £	2025 £
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	–	–	–	–	–
	2021 award	127,500	87.40%	111,435	59,061				15,156	15,156	15,156	10,547	3,046
						52,374	–	–	52,374	–	–	–	–
							12,802	68,171	83,931	30,685	23,657	12,095	3,046
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	–	–	–	–	–
	2021 award	112,500	87.40%	98,325	52,112				13,373	13,373	13,373	9,306	2,687
						46,213	–	–	46,213	–	–	–	–
							10,771	58,983	73,756	26,810	20,765	10,668	2,687
Total							23,573	127,154	157,688	57,495	44,423	22,763	5,733

* 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 resulted in a net additional expense of £35,580 related to the 2019 share award being charged in 2020, together with £10,447 of employer's national insurance.

Awards of prior years

The 2019 and 2020 awards were paid via the payroll in the year after the year of award and the net sum (calculated as 53% of the gross sum, after deducting PAYE and NI) was used to purchase new shares at the average of the closing share price for the previous three working days.

	2019 award			2020 award			Total	
	Date shares purchased	Number of shares	Purchase price at £6.63 per share £	Date shares purchased	Number of shares	Purchase price at £8.07 per share £	Purchase price £	Value at 31 December 2021 £
Simon Gill	05 May 2020	4,309	28,569	12 April 2021	4,534	36,589	65,158	77,376
Roberta Miles	05 May 2020	3,626	24,040	12 April 2021	3,990	32,199	56,239	66,640

DIRECTORS' REMUNERATION REPORT

Remuneration of the chief executive (CEO)

The table below shows the total remuneration of Simon Gill (from 31 July 2013) and Jonathan Kingerlee (deceased) (until 31 July 2013) in respect of their role as CEO, together with the annual percentage change.

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000
Fixed remuneration										
Simon Gill	131	129	113	108	98	95	70	51	21	–
Jonathan Kingerlee	–	–	–	–	–	–	–	–	20	35
Variable remuneration										
Simon Gill	195	168	104	101	94	87	82	60	–	–
Total remuneration										
Simon Gill	326	297	217	209	192	182	152	111	21	–
Jonathan Kingerlee	–	–	–	–	–	–	–	–	20	35
	326	297	217	209	192	182	152	111	41	35
Percentage change in total remuneration of CEO	10%	37%	4%	9%	5%	20%	37%	171%	17%	–
Annual variable element award payout against maximum opportunity*	87%	68%	64%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

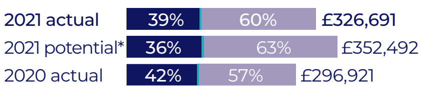
* The Highcroft Incentive Plan was introduced in 2019. Prior to that, any bonuses paid were entirely discretionary with no maximum opportunities defined.

If the share price increased, there would be no effect on the remuneration of the CEO as disclosed above as the value of any share award is determined at the time that the new shares are issued for more details see page 67.

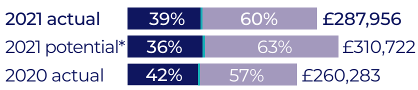
Executive directors' remuneration 2021

The charts below show the 2021 actual remuneration against the potential opportunity for the year and also the 2020 actual remuneration for each executive director. Full disclosure of the single total figure for remuneration is set out above.

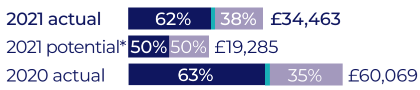
Simon Gill
Chief executive



Roberta Miles
Finance director



David Kingerlee
Executive director
for the period 1 January 2021 to 7 April 2021



Base salary   Pension   Incentive plan/discretionary bonus

* 2021 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 are only two non-board employees, one of whom started in 2021, it is not considered appropriate or beneficial to include that information as a comparator.

Change in pay between the year ended 31 December 2020 and 31 December 2021		Base salary/ fees % change	Pension/ pension allowance % change	Incentive plan: Cash award % change	Incentive plan: Share award % change**
Executive directors	Simon Gill	2%	2%	11%	61%
	David Kingerlee (to 7 April 2021) *	0%	0%	1%	–
	Roberta Miles	2%	2%	12%	62%
Non-executive directors	Charles Butler	2%	–	–	–
	Simon Costa	3%	–	–	–
	David Kingerlee (from 7 April 2021)*	(19%)	(100%)	(100%)	–

* David Kingerlee's % change has been calculated on a pro-rata basis and to his 2020 executive remuneration.

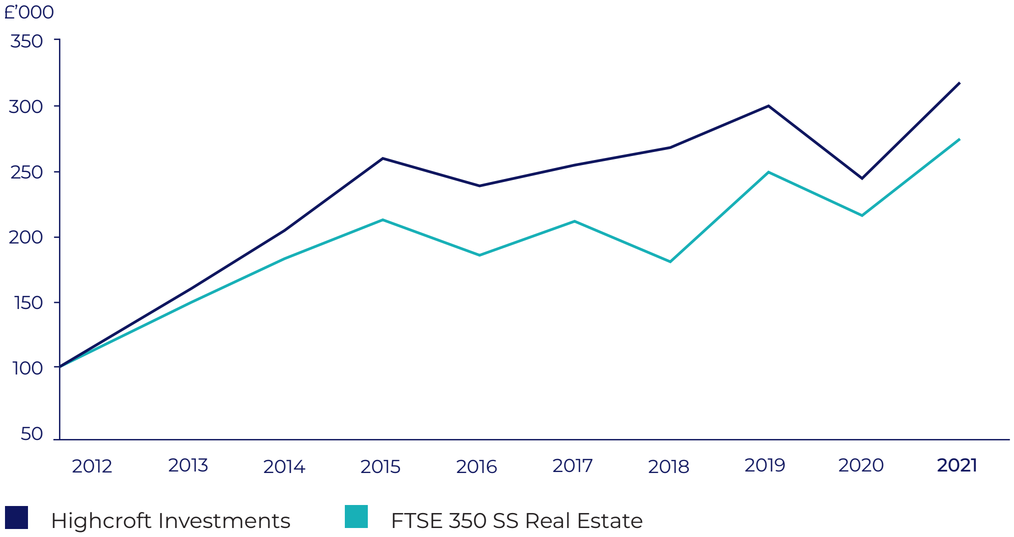
** The % change is calculated by reference to the gross value of the award for the year and not the amount expensed in the year (see pages 66 to 67).

Company performance

The board is responsible for the group's performance.

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

Total Shareholder Return performance graph



Statement of implementation of remuneration policy in the next financial year

The board does not intend to make any significant changes to remuneration policy during 2022.

Salaries 2022

The committee undertook a benchmarking exercise with PWC at the beginning of 2019. At the end of each subsequent year, 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 2022:

Simon Gill	£140,500	Charles Butler	£53,000
Roberta Miles	£124,000	Simon Costa	£40,500
		David Kingerlee	£25,000

Highcroft Incentive Plan 2022

The maximum opportunity under the Highcroft Incentive Plan for 2022 will continue to be 200% of salary for Simon Gill and Roberta Miles. 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 2022 are not disclosed here on the grounds of commercial sensitivity, and will be disclosed in the 2022 directors' remuneration report.

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 2021, were as follows:

	Held under the Highcroft Incentive Plan*	Held directly	Total
Charles Butler	–	–	–
Simon Costa	–	–	–
Simon Gill	8,843	–	8,843
David Kingerlee	–	1,498,333	1,498,333
Roberta Miles	7,616	5,950	13,566

* The shares held under the Highcroft Incentive Plan include all those issued in prior years, see page 67 (awards of prior years) all of which are subject to malus and clawback in accordance with the remuneration policy (page 62).

Director's shareholding guideline

Executive directors are subject to within-employment and post-employment shareholding requirements – see page 62. David Kingerlee was subject to this guideline until he ceased to be an executive director on 7 April 2021.

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 2021, the executive directors are on track to build up, on a straight-line basis, to their shareholding guideline within the five-year period

Executive director	Beneficially held shares*	2021 base salary £	Target by May 2025 £	Achieved at 31 December 2021	Value of beneficially held shares £
Simon Gill	8,843	127,500	127,500	60.7%	77,376
Roberta Miles	13,566	112,500	112,500	105.5%	118,703

* 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 2021 of £8.75.

Statement of shareholder voting

At the AGM in 2021, the resolution to approve the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	2,672,890	99.96%
Votes cast against	1,000	0.04%
Total votes cast	2,673,890	100%
Votes withheld	–	–

Approved by the board of directors and signed by

SIMON COSTA

Chairman of the remuneration committee

28 March 2022

REPORT OF THE DIRECTORS

The corporate governance report on pages 46 to 73 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 2021.

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	Non-executive director*
Roberta Miles	Finance director

* With effect from 7 April 2021, David Kingerlee became a shareholder representative for Kingerlee Holdings Limited and subsequently a non-independent non-executive director as explained on page 49.

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 70.

In accordance with the Code, all directors will retire and offer themselves for re-election at the forthcoming 2022 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 2021, was £1,295,925 (2020 £1,293,794) divided into 5,183,699 (2020 5,175,175) 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 2021, 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			23.27%	1,206,205
Controlling shareholder – Kingerlee				
Concert Party comprising				
– the wholly owned subsidiaries of Kingerlee Holdings Limited:				
Kingerlee Limited	9.93%	515,000		
Kingerlee Homes Limited	7.70%	399,093		
T H Kingerlee & Sons Limited	9.55%	494,770		
Total – Kingerlee Holdings Limited	27.18%	1,408,863		
– other associates	13.86%	718,519		
Total – Kingerlee Concert Party			41.04%	2,127,382

REPORT OF THE DIRECTORS

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 28 March 2022, held 2,127,382 ordinary shares, representing 41.04% 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 2021 until 31 December 2021 (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 2021, due to the continued impact of the Covid-19 pandemic, our interactions have continued to be mixture of face to face and virtual. More detail can be found on page 39.

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 89.

Charitable donations

During the year, the group made charitable donations of £12,000. More detail can be found on page 43.

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 16 to 43.

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
28 March 2022

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 the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as adopted for use in the United Kingdom for the group, 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 the Companies Act 2006 and International Financial Reporting Standards ("IFRS") as adopted for use in the United Kingdom 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

28 March 2022

FINANCIAL STATEMENTS

Contents

WAREHOUSE – ROCHE, ST AUSTELL

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'; the 'company') and its subsidiaries (the 'group') for the year ended 31 December 2021 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, 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 UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements 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.

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;
- Evaluating the directors' method to assess the group's and the parent company's ability to continue as a going concern approved by the board of directors on 28th March 2022;
- Making enquiries of directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the group's and the company's future financial performance. This included examining the minimum cash inflow and committed outgoings under the cash flow forecasts and evaluating whether the directors' conclusion that liquidity headroom remained in all events was reasonable;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, as described in Note 1, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included assessing the viability of mitigating actions within the directors' control;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern;
- 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.

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

In relation to Highcroft Investments PLC'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.

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 opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

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 £87.6m as at 31 December 2021. The valuation were 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 91% 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 2021. As a result, the valuation of investment properties is considered to be a key audit matter. Refer to page 54 (Report of the Audit Committee), page 85 (Note 1 Significant accounting policies, accounting estimates and judgments and investment property) and pages 90 to 92 (Note 8 Investment property).	Our audit work included but was not limited 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, engaging our valuation expert to review reasonableness and suitability of the key valuation assumptions; • For all properties, 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; • For all properties, 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:

Group materiality

Overall materiality	£793,000
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, we set performance materiality at £555,000 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 £24,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Parent company materiality

Overall materiality	£502,000
How we determined it	The parent company's statutory materiality has been calculated with reference to the group's total assets, of which it represents approximately 1%. For the purposes of the group audit, we capped the overall materiality for the company to be 63% of the group overall materiality.
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, we set performance materiality at £351,000 which is approximately 70% of overall company materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £15,000 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.

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 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 our risk assessment, our understanding of the group and the parent company, their environment, controls, and critical business processes, to consider qualitative factors 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 company financial statements. Based on our risk assessment, all components of the group, including the parent company, were subject to full scope audit performed by the group audit team. 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 £70,000 and £688,000. For all components across the group performance materiality was set at 70%.

At the parent company level, the group audit team 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 and accounts 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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 their environment obtained in the course of the audit, we have not identified material misstatements in the:

- strategic report or the directors' report; or
- 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 Highcroft Investments PLC'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 38;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on page 37;
- Directors' statement on fair, balanced and understandable, set out on page 73;
- Board's confirmation that it has carried out a robust assessment of the e-merging and principal risks, set out on page 34-37;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 56; and;
- The section describing the work of the audit committee, set out on page 53-56.

Responsibilities of Directors

- As explained more fully in the directors' responsibilities statement set out on page 73, 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Highcroft Investments PLC

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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the group and the parent company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: compliance with the Real Estate Investment Trust (REIT) status.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which they operate, and the structure of the group, and considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the group and the parent company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as: Listing Rules, UK Corporate Governance Code, Disclosure Guidance and Transparency Rules, UK Tax legislation and Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks 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 revenue recognition (which we pinpointed to the cut-off and accuracy), valuation of investment property, and significant one-off or unusual transactions.

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;
- 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.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the members on 20 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is five years, covering the years ending 31 December 2017 to 31 December 2021.

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 our additional report to the audit committee.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

STEPHEN EAMES
(Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
The Pinnacle
160 Midsummer Boulevard
Milton Keynes MK91FF
28 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	Note	2021 Revenue £'000	2021 Capital £'000	2021 Total £'000	2020 Revenue £'000	2020 Capital £'000	2020 Total £'000
Gross rental revenue		5,928	–	5,928	6,084	–	6,084
Property operating expenses	8	(670)	–	(670)	(620)	–	(620)
Net rental income		5,258	–	5,258	5,464	–	5,464
Profit on disposal of investment property		–	250	250	–	–	–
Valuation gains on investment property		–	9,925	9,925	–	2,525	2,525
Valuation losses on investment property		–	(1,170)	(1,170)	–	(7,175)	(7,175)
Net valuation gains/(losses) on investment property	8	–	8,755	8,755	–	(4,650)	(4,650)
Administration expenses	3	(1,164)	–	(1,164)	(1,069)	–	(1,069)
Net operating profit/(loss) before net finance expense		4,094	9,005	13,099	4,395	(4,650)	(255)
Finance income		4	–	4	4	–	4
Finance expense		(855)	–	(855)	(896)	–	(896)
Net finance expense		(851)	–	(851)	(892)	–	(892)
Profit/(loss) before tax		3,243	9,005	12,248	3,503	(4,650)	(1,147)
Income tax charge	5	(304)	–	(304)	–	–	–
Profit/(loss) for the year after tax		2,939	9,005	11,944	3,503	(4,650)	(1,147)
Total profit/(loss) and comprehensive income/(loss) for the year attributable to the owners of the parent		2,939	9,005	11,944	3,503	(4,650)	(1,147)
Basic and diluted earnings/(loss) per share	7			230.5p			(22.2p)

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 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investment property	8	87,565	78,810
Total non-current assets		87,565	78,810
Current assets			
Trade and other receivables	10	2,876	1,692
Cash and cash equivalents		5,715	3,295
Assets classified as held for sale	9	–	3,250
Total current assets		8,591	8,237
Total assets		96,156	87,047
Liabilities			
Current liabilities			
Interest bearing loan	12	7,500	–
Trade and other payables	11	2,839	2,726
Total current liabilities		10,339	2,726
Non-current liabilities			
Interest bearing loan	12	19,700	27,200
Total non-current liabilities		19,700	27,200
Total liabilities		30,039	29,926
Net assets		66,117	57,121
Equity			
Issued share capital	13	1,296	1,294
Share-based payment reserve		102	43
Revaluation reserve – property		19,236	12,814
Other equity reserve		(121)	(53)
Share premium		117	51
Capital redemption reserve		95	95
Realised capital reserve		29,623	28,995
Retained earnings		15,769	13,882
Total equity attributable to the owners of the parent		66,117	57,121

These financial statements were approved by the board of directors on 28 March 2022.

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

2021	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 2021	1,294	43	12,814	(53)	51	95	28,995	13,882	57,121
Transactions with owners:									
Issue of shares	2	–	–	(68)	66	–	–	–	–
Dividends	–	–	–	–	–	–	–	(3,007)	(3,007)
	2	–	–	(68)	66	–	–	(3,007)	(3,007)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation gains	–	–	8,755	–	–	–	–	(8,755)	–
Realised gains	–	–	–	–	–	–	250	(250)	–
Surplus attributable to assets sold in the year	–	–	(378)	–	–	–	378	–	–
Change in excess of cost over fair value through retained earnings	–	–	(1,955)	–	–	–	–	1,955	–
	–	–	6,422	–	–	–	628	(7,050)	–
Share award expensed	–	59	–	–	–	–	–	–	59
Total comprehensive income for the year	–	–	–	–	–	–	–	11,944	11,944
At 31 December 2021	1,296	102	19,236	(121)	117	95	29,623	15,769	66,117

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

CONSOLIDATED STATEMENT OF CASHFLOWS

at 31 December 2021

	Note	2021 £'000	2020 £'000
Operating activities			
Profit/(loss) before tax		12,248	(1,147)
Adjustments for:			
Net valuation (gains)/losses on investment property		(8,755)	4,650
Net gain on disposal of investment property		(250)	–
Share-based payment expense		59	31
Finance income		(4)	(4)
Finance expense		855	896
Operating cashflow before changes in working capital and provisions		4,153	4,426
Decrease/(increase) in trade and other receivables		391	(545)
Increase in trade and other payables		120	252
Cash generated from operations		4,664	4,133
Finance income		4	4
Finance expense		(855)	(896)
Income taxes paid		(311)	(21)
Net cashflows from operating activities		3,502	3,220
Investing activities			
Sale of current assets – investment property	8	1,925	–
Net cashflows from investing activities		1,925	–
Financing activities			
Dividends paid		(3,007)	(2,484)
Repayment of bank borrowings		–	(4,000)
New bank borrowings		–	5,000
Net cashflows from financing activities		(3,007)	(1,484)
Net increase in cash and cash equivalents		2,420	1,736
Cash and cash equivalents at 1 January		3,295	1,559
Cash and cash equivalents at 31 December		5,715	3,295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

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 2021 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 the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom.

In light of the ongoing 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 2021. The group's and company's going concern assessment considers the group's and company's principal risks, identified on pages 34 to 37 of this document, and is dependent on a number of factors, including cashflow and liquidity, continued access to borrowing facilities, in particular the agreed facility in place to replace the term loan expiring in May 2022, 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:

- 20% reduction in net income from our portfolio.
- A 100% increase in the financing cost of the debt maturing in 2022.
- A 25% increase in the forecast proposed capital expenditure.
- The non-release of the £1.6m held by Handelsbanken plc as cash security for borrowing.

Under this scenario, the group and company are forecast to maintain sufficient cash and liquidity resources and remain compliant with its financial covenants.

Based on the consideration above, the board believes that the group and company have 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 2021, 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.

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, profits and losses on disposal of property, and all gains and losses on financial assets and the related tax impact. The revenue column includes all other items.

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.

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 valuation of investment properties at fair value is 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 would materially affect the group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

1 Significant accounting policies continued

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiaries: Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited, which are all made up to 31 December 2021, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue as a lessor

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

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 that 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 leases, 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.

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 uncollectable amounts. The group applies the IFRS 9 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 90 days past due. 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 issued 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

2 Segment reporting

The group is comprised of one main operating segment. All of the revenue is received from England and Wales.

In 2021, one tenant represented £684,000, 11.5% of the gross rental revenue of £5,928,000. In 2020, the largest tenant represented £684,000, 11.2% of gross rental revenue.

3 Administrative expenses

	2021 £'000	2020 £'000
Directors (Note 4)	837	801
Auditor's fees		
– Fees payable to the company's auditor for the audit of the company's accounts – current year*	54	48
– Additional fee in respect of prior year	–	8
– Fees payable to the company's auditor for other services	10	2
Staff costs – (excluding directors' remuneration)	44	28
Other expenses	219	182
	1,164	1,069

*The audit fee for 2021 includes £10,900 (2020 £10,000) 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

	2021 £'000	2020 £'000
Remuneration in respect of directors was as follows:		
Remuneration	738	703
Pension costs	–	1
Social security costs	99	97
	837	801

The average number of employees was six (2020 six) all of whom, other than a part-time management accountant and a part-time company secretary, 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 charge/(credit)

		2021 £'000	2020 £'000
Current tax:			
On revenue profits	– current year	–	8
	– prior year	–	(8)
On write off of part of PID pool		304	–
Income tax charge		304	–

During the year the group took advantage of HMRC Covid-19 concessions and wrote £1.6m off its outstanding PID pool which resulted in a tax charge of £304,000, 19%.

5 Income tax charge/(credit) continued

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2020 19%).

The differences are explained as follows:

	2021 £'000	2020 £'000
Profit/(loss) before tax	12,248	(1,147)
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020 19%)	2,327	(218)
Effect of:		
Profit not taxable as a result of REIT status	(2,327)	220
Tax due on non-payment of part of PID pool	304	–
Adjustment in respect of prior year	–	(2)
Income tax charge	304	–

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The rate reduction to 17% was subsequently reversed by the Finance Act 2020, such that the main rate of UK corporation tax from 1 April 2021 remains at 19%. The Finance Act 2021 confirmed an increase of UK corporation tax rate from 19% to 25% with effect from 1 April 2023 and this was substantively enacted by the statement of financial position date and therefore included in these financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

6 Dividends

In 2021, the following dividends have been paid by the company:

	2021 £'000	2020 £'000
2020 Final: 30.00p per ordinary share (2019 27.00p)	1,555	1,397
2020 Special: 6.00p per ordinary share (2019 nil)	311	–
2021 Interim: 22.00p per ordinary share (2020 21.00p)	1,141	1,087
	3,007	2,484

On 28 March 2022, the directors declared a final property income distribution for 2021 of £1,711,000, 33.00p per share, together with a special property income distribution for 2021 of £nil per share (2020 final property income distribution of £1,555,000, 30.00p per share, and special property income distribution for 2020 of £311,000, 6.00p per share), payable on 7 June 2022 to shareholders registered on 22 April 2022.

7 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £11,944,000 (2020 loss £1,147,000) and on 5,181,317 shares (2020 5,167,465), which is the weighted average number of shares in issue during the year ended 31 December 2021. 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 £2,939,000 (2020 £3,503,000) has been calculated.

	2021 £'000	2020 £'000
Earnings:		
Basic profit/(loss) for the year	11,944	(1,147)
Adjustments for:		
Profit on disposal of investment property	(250)	–
Net valuation (gains)/losses on investment property	(8,755)	4,650
Adjusted earnings	2,939	3,503
Per share amount:		
Earnings/(loss) per share (unadjusted)	230.5p	(22.2p)
Adjustments for:		
Profit on disposal of investment property	(4.8p)	–
Net valuation (gains)/losses on investment property	(169.0p)	89.9p
Adjusted earnings per share	56.7p	67.7p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

8 Investment property

	2021 £'000	2020 £'000
Total valuation at 1 January	82,060	86,710
Disposals	(3,250)	–
Revaluation gains	9,925	2,525
Revaluation losses	(1,170)	(7,175)
Valuation at 31 December	87,565	82,060
Less property held for sale categorised as current asset	–	(3,250)
Property categorised as fixed asset	87,565	78,810

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 2021, 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 £73,961,000 (2020 £76,832,000).

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 valuations at 31 December 2021 and 31 December 2020 were 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 discussions 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 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.

8 Investment property continued

Significant unobservable inputs

31 December 2021		Warehouse	Retail warehouse	Leisure	Office	High street retail	Total
Valuation technique		Income capitalisation					
Fair value of property portfolio	£'000	39,800	24,250	10,750	7,800	4,965	87,565
Area	sq ft	581,386	133,746	87,955	29,323	16,433	848,843
Gross estimated rental value (ERV)	£'000	3,310	1,557	812	600	382	£6,661
ERV per sq ft							
Minimum	£	2.40	11.33	7.50	20.00	70.00	
Maximum	£	12.00	24.50	28.85	22.50	125.00	
Weighted average	£	8.18	13.37	12.12	21.02	102.55	
Net initial yield							
Minimum	%	4.31	5.02	2.93	0.00	0.00	
Maximum	%	11.98	8.44	7.73	4.39	8.94	
Weighted average	%	8.31	6.45	5.16	1.78	5.12	
Reversionary yield							
Minimum	%	4.57	5.29	6.10	4.71	6.57	
Maximum	%	19.24	7.31	8.15	11.27	7.69	
Weighted average	%	11.22	6.13	7.22	8.61	7.31	
Equivalent yield							
Minimum	%	4.51	5.25	6.15	4.66	6.50	
Maximum	%	8.49	7.23	7.92	7.51	7.46	
Weighted average	%	6.73	6.10	7.12	6.35	7.01	

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	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

8 Investment property continued

Sensitivities of measurement of significant unobservable inputs

As set out on page 90, 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 rise of 11.1% already recognised in the year.

31 December 2021	Warehouse £'000	Retail warehouse £'000	Leisure £'000	Office £'000	High street retail £'000	Total £'000
Fair value of property portfolio	39,800	24,250	10,750	7,800	4,965	87,565
Impact on valuation of:						
+5% on ERV	1,989	1,210	536	390	245	4,370
-5% on ERV	(1,989)	(1,210)	(536)	(390)	(245)	(4,370)
-50bps on EY	354	204	119	69	50	796
+50bps on EY	(347)	(200)	(116)	(68)	(49)	(780)

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)

Additional property disclosures including property covenant information

Thirteen investment properties with a carrying amount of £59,165,000 (2020 thirteen properties with a valuation of £49,850,000) are charged to Handelsbanken plc to secure the group's short-term and medium-term loans.

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

	2021 £'000	2020 £'000
Less than one year	5,518	5,161
Between one and five years	14,265	16,315
More than five years	12,393	13,354
	32,176	34,830

Property disposals related to our Andover property, which had a net book value at 31 December 2020 of £3,250,000, was disposed of for net consideration of £3,500,000, of which £1,575,000 was immediately placed as security with Handelsbanken plc and is disclosed within other receivables (Note 10) and £1,925,000 was added to cash.

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

9 Assets classified as held for sale

	2021 £'000	2020 £'000
Investment property held for sale	–	3,250

The asset held for sale at 31 December 2020; our Andover property was sold in August 2021.

10 Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	310	783
Accrued rent receivable	868	871
Other receivables	1,698	38
	2,876	1,692

Included in trade receivables are amounts due from tenants at each year end and include amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2021, amounts due from tenants that were more than 90 days overdue, which related to rents for 2021 or earlier, totalled £432,000 (2020 £281,000). Trade and other receivables are shown after deducting a provision for bad and doubtful debts of £471,000 (2020 £366,000). 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 £189,000 (£2020 £366,000). 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 receivables that are 90 days past due. 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 and other factors. 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.

Other receivables includes £1,575,000 given as security to Handelsbanken plc from the proceeds of sale of our secured Andover property. It is anticipated that this cash will be available in May 2022 as part of the re-financing of our term loan maturing then.

11 Trade and other payables

	2021 £'000	2020 £'000
Deferred income	1,040	983
Social security and other taxes	628	960
Other payables	1,171	783
	2,839	2,726

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

12 Interest-bearing loan

	2021 £'000	2020 £'000
Short-term bank loans due within one year	7,500	–
Medium-term bank loans	19,700	27,200
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	–	7,500
Between two and five years	3,400	–
Over five years	16,300	19,700
	19,700	27,200

Further analysis of the short-term and medium-term bank loans, including the £5,000,000 drawn and the £4,000,000 repaid in 2020, is set out on page 31. The group has a facility letter in place to re-finance its loan that matures on 16 May 2022.

The weighted average effective interest rate is 3.13% (2020 3.13%).

13 Share capital

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

	2021		2020	
	Number	£'000	Number	£'000
At 1 January	5,175,175	1,294	5,167,240	1,292
Issued under the Highcroft Incentive Plan	8,524	2	7,935	2
At 31 December	5,183,699	1,296	5,175,175	1,294

The directors monitor capital on the basis of total equity and operate within the requirements of the articles of association. There was £7,500,000 of short-term debt and £19,700,000 of medium-term debt at 31 December 2021 (2020 £27,200,000 short and medium-term debt).

The rights and obligations relating to the company's share capital is summarised on page 71.

14 Share premium

	2021 £'000	2020 £'000
At 1 January	51	–
Issued under the Highcroft Incentive Plan	66	51
At 31 December	117	51

15 Capital commitments

There were no capital commitments at 31 December 2021 or at 31 December 2020.

16 Contingent liabilities

There were no contingent liabilities at 31 December 2021 or at 31 December 2020.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.2% (2020 27.2%) of the company's shares, and David Kingerlee is a director and shareholder of both the company and Kingerlee Holdings Limited. The transactions between the group and Kingerlee Holdings Limited or its subsidiaries were as follows:

	2021 £'000	2020 £'000
Transactions by the company:		
Property income distribution paid to related party	817	676
Licence fee for use of property and recharge of sundry costs paid to related party	1	14

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

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 102 of this annual report.

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

	2021 £'000	2020 £'000
Simon Gill	5	2
David Kingerlee	52	43
Roberta Miles	8	5

18 Financial instruments and financial risk

Categories of financial instruments

	2021		2020	
	Carrying amount £'000	Gains/ (losses) £'000	Carrying amount £'000	Gains/ (losses) £'000
Financial assets measured at amortised cost:				
Trade and other receivables	1,301	–	1,692	–
Cash and cash equivalents	5,715	–	3,295	–
	7,016	–	4,987	–
Financial liabilities measured at amortised cost:				
Interest-bearing loans	27,200	–	27,200	–
Trade and other payables	1,171	–	783	–
	28,371	–	27,983	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

18 Financial instruments and financial risk continued

Fair value and maturity of financial instruments

The group has no derivative financial instruments. Exposure to credit, liquidity and market risks arises in the normal course of the group's business. At 31 December 2021, the group had £7,500,000 of short-term borrowing and £19,700,000 of medium-term borrowing (2020 £27,200,000 of 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% (2020 3.13%). 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:

	2021					
	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	30,991	8,166	557	5,037	17,231
Trade and other payables	1,171	1,171	1,171	–	–	–

	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	–	–	–

Credit risk

The group's credit risk, that is 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 2021 was £392,000 (2020 £366,000). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2021 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.

Capital risk

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.

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 group has a facility letter in place to re-finance its loan that matures on 16 May 2022. The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cash flows.

Interest rate risk

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

18 Financial instruments and financial risk continued

Currency exchange risk
The group is not directly exposed to currency risk.

Market risk
The group is not directly exposed to market risk.

Borrowing facilities
The group has no undrawn committed borrowing facilities.

19 Changes in liabilities arising from financing activities

	Bank loans (Note 12)	
	2021 £'000	2020 £'000
At 1 January	27,200	26,200
New loans	–	5,000
Loans repaid	–	(4,000)
Interest charged	850	896
Interest paid	(850)	(896)
At 31 December	27,200	27,200

20 Net assets per share

	2021	2020
Net assets	£66,117,000	£57,121,000
Ordinary shares in issue	5,183,699	5,175,175
Basic net assets per share	1,275p	1,104p

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2021

		2021		2020	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Investments	5		60,418		50,784
Current assets					
Debtors	6	2,597		5,006	
Cash at bank		3,860		2,040	
		6,457		7,046	
Creditors – amounts falling due within one year	7	758		709	
Net current assets			5,699		6,337
Total assets less current liabilities			66,117		57,121
Net assets			66,117		57,121
Capital and reserves					
Called-up share capital	8		1,296		1,294
Reserves					
– Share-based payment		102		43	
– Realised capital		8,728		8,728	
– Other equity		(121)		(53)	
– Share premium		117		51	
– Capital redemption		95		95	
– Revaluation		50,155		40,521	
– Retained earnings		5,745		6,442	
			64,821		55,827
Shareholders' funds			66,117		57,121

The company reported total profit and comprehensive income for the financial year ended 31 December 2021 of £11,944,000 (2020 loss £1,147,000).

These financial statements were approved by the board of directors on 28 March 2022.

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 2021

	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 2021		1,294	43	8,728	(53)	51	95	40,521	6,442	57,121
Profit for the year	2	–	–	–	–	–	–	–	2,310	2,310
Other comprehensive income for the year	2	–	–	–	–	–	–	–	9,634	9,634
Dividends paid		–	–	–	–	–	–	–	(3,007)	(3,007)
Revaluation gain of subsidiaries		–	–	–	–	–	–	9,634	(9,634)	–
Issue of shares		2	–	–	(68)	66	–	–	–	–
Share award expensed		–	59	–	–	–	–	–	–	59
At 31 December 2021		**1,296**	**102**	**8,728**	**(121)**	**117**	**95**	**50,155**	**5,745**	**66,117**

	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
At 31 December 2020		1,294	43	8,728	(53)	51	95	40,521	6,442	57,121

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2021

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 is recognised in the statement of comprehensive income when the right to receive the payment is established.

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).
- 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 profit/(loss) for the year after tax

The company has not presented its own profit and loss account as permitted under section 408 of the Companies Act 2006. The profit after tax for the year was £11,944,000 (2020 loss £1,147,000). Information regarding directors' remuneration appears on pages 59 to 70 of this annual report.

3 Auditor's fees

	2021 £'000	2020 £'000
Fees payable to the company's auditor for the audit of the group's annual accounts*	54	48
Additional fee in respect of prior year	–	8
Fees payable to the company's auditor for other services:		
Audit-related assurance services	10	2
	64	58

* The audit fee for 2021 includes £10,900 (2020 £10,000) 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 2021, the following dividends have been paid by the company:

	2021 £'000	2020 £'000
2020 Final: 30.00p per ordinary share (2019 27.00p)	1,555	1,397
2020 Special: 6.00p per ordinary share (2019 nil)	311	–
2021 Interim: 22.00p per ordinary share (2020 21.00p)	1,141	1,087
	3,007	2,484

On 28 March 2022, the directors declared a final property income distribution for 2021 of £1,711,000, 33.00p per share, together with a special property income distribution for 2021 of £nil per share (2020 final property income distribution of £1,555,000, 30.00p per share, together with a special property income distribution for 2020 of £311,000, 6.00p per share), payable on 7 June 2022 to shareholders registered on 22 April 2022.

5 Investments

	Shares in subsidiary undertaking £'000
Valuation at 1 January 2021	50,784
Surplus on revaluation in excess of cost	9,634
Valuation at 31 December 2021	60,418

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 2021	10,271
Cost at 31 December 2020	10,271

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2021

5 Investments continued

At 31 December 2021, the company held 100% of the following companies which are all registered in England and Wales and which all have the same registered office address as the company: Park Farm Technology Centre, Akeman Street, Kirtlington, Oxon, OX5 3JQ.

Subsidiary	Primary activity	Immediate parent company	Ownership
Rodenhurst Estates Limited	Property investment	Highcroft Investments PLC	100%
BL (Wisbech) Limited	Holding company	Rodenhurst Estates Limited	100%
Belgrave Land (Wisbech) Limited	Property investment	BL (Wisbech) Limited	100%

At 31 December 2021, the net assets and the profit for the financial year of these subsidiaries were:

	2021		2020	
	Net assets £'000	Profit for the financial year £'000	Net assets £'000	Loss for the financial year £'000
Rodenhurst Estates Limited	60,418	12,634	50,784	(773)
BL (Wisbech) Limited*	–	–	–	–
Belgrave Land (Wisbech) Limited	3,509	1,097	2,142	(628)

* 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

	2021 £'000	2020 £'000
Owed by subsidiary undertakings	2,567	4,982
Other debtors	30	24
	2,597	5,006

7 Creditors – amounts falling due within one year

	2021 £'000	2020 £'000
Other taxes and social security	251	295
Other creditors	507	414
	758	709

8 Share capital

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

	2021		2020	
	Number	£'000	Number	£'000
At 1 January	5,175,175	1,294	5,167,240	1,292
Issued under the Highcroft Incentive Plan	8,524	2	7,935	2
At 31 December	5,183,699	1,296	5,175,175	1,294

9 Share premium

	2021 £'000	2020 £'000
At 1 January	51	–
Issued under the Highcroft Incentive Plan	66	51
At 31 December	117	51

10 Capital commitments

There were no capital commitments at 31 December 2021 or at 31 December 2020.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2021 or at 31 December 2020.

12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.2% (2020 27.2%) of the company's shares, and David Kingerlee is a director and shareholder of both the company and Kingerlee Holdings Limited. The transactions between the company and Kingerlee Holdings Limited or its subsidiaries, all of which were undertaken on an arm's-length basis, were as follows:

	2021 £'000	2020 £'000
Property income distribution paid to related party	817	676
Licence fee for use of property and recharge of sundry costs paid to related party	1	14

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

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:

	2021 £'000	2020 £'000
Remuneration	777	728
Pension costs	–	1
Social security costs	103	100
	880	829

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)

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Investment properties – at annual valuation	87,565	82,060	86,710	77,700	77,113
Equity investments – at market value	–	–	–	679	2,131
Total net assets	64,117	57,121	60,721	62,384	59,977
Net asset value per share in issue at end of each year	1,275p	1,104p	1,175p	1,207p	1,161p
Revenue (excluding gains/losses on disposals of assets)					
Gross income from property	5,928	6,084	5,840	5,043	4,765
Net admin expenses to gross rent	19.6%	17.6%	14.1%	14.6%	13.9%
Profit available for distribution	2,939	3,503	4,055	4,512	3,348
Share capital					
Weighted average number in issue (000s)	5,184	5,172	5,167	5,167	5,167
Basic earnings per ordinary share	230.5p	(22.2p)	22.3p	95.3p	132.3p
Adjusted earnings per ordinary share	56.7p	67.7p	78.5p	87.3p	64.8p
Dividends payable per ordinary share	55.00p	57.00p	48.00p	52.50p	46.25p
FTSE 350 Real Estate Index	623	491	602	468	568
Highcroft year-end share price	875.0p	720.0p	942.5p	885.0p	887.5p

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
Anne-Marie Palmer LLB FCG

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Statutory Auditor
Chartered Accountants
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