

# Highcroft

Investments PLC

Shareholder Focused ✓  
Market Aware ✓  
Opportunity Driven ✓



# Annual report and accounts

For the year ended 31 December 2019

Stock code: HCFT

[www.highcroftplc.com](http://www.highcroftplc.com)

# Welcome to the Highcroft Investments PLC

## Annual report and accounts 2019



View more online at:  
[www.highcroftplc.com](http://www.highcroftplc.com)

### Who we are

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

We have a diversified portfolio of 22 properties generating rental income from 30 tenancies spread across the warehouse, retail warehouse, leisure, office and retail sectors.

### Our purpose

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

### Our strategy

Highcroft aims to deliver sustainable long-term income and capital growth 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 team
- High quality assets
- Financial strength
- Moderate gearing

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

- ✓ **Shareholder focused**  
Our actions are centred on our shareholders; investments are considered in order to execute our strategy and increase shareholder value.
- ✓ **Market aware**  
Understanding the industry we operate within enables us to invest in specific areas and sectors to generate maximum value.
- ✓ **Opportunity driven**  
We are able to identify and react quickly to market opportunities in order to deliver returns above the industry average.

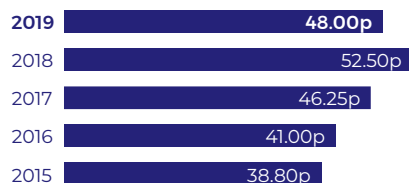
\* A REIT is a property company which enables its shareholders to invest in property and receive benefits as if they owned the property directly



# Highlights

Dividends payable to shareholders

**48.00p** -8.6%



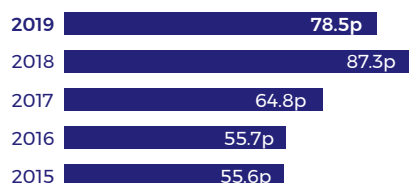
Gross property income

**£5.8m** +15.8%



Adjusted earnings per share

**78.5p** -10.1%



Value of property assets

**£86.7m** +11.6%



Average lot size

**£3.9m** +1.4%



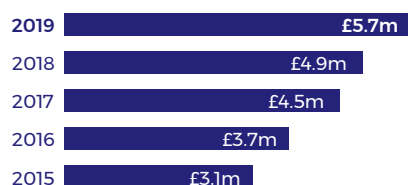
Net asset value per share

**1175p** -2.7%



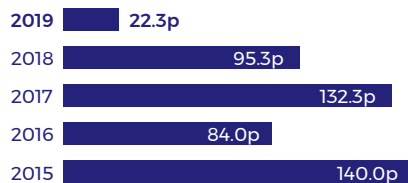
Net property income

**£5.7m** +16.4%



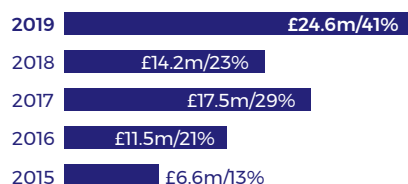
Total earnings per share

**22.3p** -76.6%



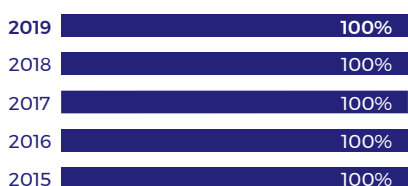
Net debt/gearing

**£24.6m/41%**



Occupancy in our portfolio

**100%**



## Contents

### Business overview

Highlights	01
Operational highlights	02
Chairman's statement	03
Group at a glance	04
Our portfolio	06

### Strategic report

Our marketplace	12
Our business model	14
Our strategy	16
Our key performance indicators	18
Operating review	19
Financial review	22
Our risks	26
Corporate social responsibility	30

### Our governance

Chairman's introduction to corporate governance	34
Board of directors	36
Corporate governance	38
Report of the audit committee	40
Report of the nomination committee	43
Directors' remuneration report	44
Report of the directors	53
Statement of directors' responsibilities	55

### Financial statements

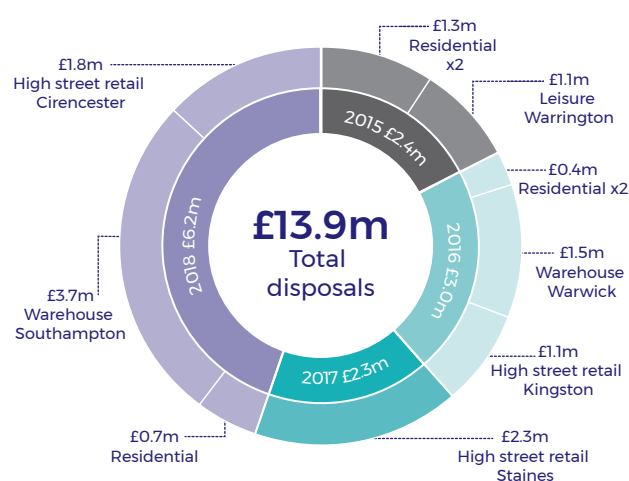
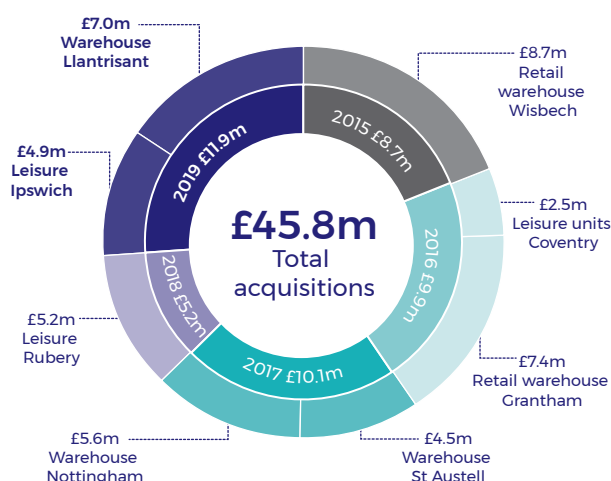
Independent auditors' report	58
Consolidated statement of comprehensive income	62
Consolidated statement of financial position	63
Consolidated statement of changes in equity	64
Consolidated statement of cashflows	65
Notes to the consolidated financial statements	66
Company statement of financial position	76
Company statement of changes in equity	77
Notes to the company financial statement	78
Group five year summary (unaudited)	82
Directors and advisers	82

# Operational highlights

**“In 2019 we continued with our long-term strategy of rebalancing and growing the portfolio. We acquired one large warehouse asset and one leisure asset and made no disposals.”**

**Simon Gill**  
Chief executive

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



## Sector overview

### Warehouse/industrial

This sector outperformed all others in 2019, again. We added to this sector of our portfolio with the purchase of our Llantrisant property comprising 111,000 sq ft let to British Airways Avionics Engineering Ltd which showed a net yield of 11.6%. This element of our portfolio produces an average yield on valuation of 7.5% and 9.1% on cost.

### Retail warehouse

In 2019, the decline in retail was again evidenced in the retail warehouse sector which saw further reductions in rents and values. This sector of our portfolio accounts for approximately 27.5% and all our properties are fully occupied. 2019 finished with some encouraging signs of investors looking to buy retail warehouses with a planned future use for 'click and collect' to satisfy the increasing online consumer market.

### High street retail

This was another poor year for high street retail with the high street witnessing further administrations and CVAs and an increasing number of void units. There were significant negative returns for this sector, which is forecast for further falls in 2020. Over time we have reduced our exposure to this sector of the market and high street retail constitutes only 7.8% of our portfolio.

### Leisure


We increased our weighting in this sector with the acquisition of our Ipswich property let to DW Fitness; with approximately 17 years unexpired on the lease at the time of acquisition, this also enhanced our weighted average unexpired lease term. Leisure now constitutes 13.6% of our portfolio – up from 0% in 2015.

### Office

In 2019 the office market performed well in certain areas, notably the West End of London. We increased our office rental income by over 15% due to good asset management; offices represent 8.6% of our portfolio and are valued at an average of 7.8% compared to an average yield on cost of 14.4%. Our offices saw a 7.8% increase in valuation in 2019.

### Alternatives

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

 Read more in the **Operating review** on pages 19 to 21



# Chairman's statement



**“Our performance in 2019 was robust with an increase of 16.4% in net property income and an increase in total shareholder return of 12.7%. This provides a secure base to enable us to deal with the current Covid-19 outbreak.”**

**Charles Butler**  
Chairman

## Dear Shareholder, Introduction

I am pleased to say Highcroft has delivered a robust performance in the 2019 financial year. As a result of our proactive asset management strategy, we have reported an increase in net property income of 16.4% and a total shareholder return of 12.7%.

This provided a strong starting point for the current financial year; however the Covid-19 pandemic has now introduced a significant level of uncertainty into the marketplace in which we operate and in turn for all our stakeholders. As a consequence, we are in regular dialogue with our tenants to understand their needs and will continue to monitor on-going developments carefully and take any necessary action, if required.

## Property portfolio

Throughout 2019 the property market faced unsettled conditions with different sub sectors affected in different ways. In support of our on-going diversification away from high street retail, we have seen warehouses and logistics continue to perform well as the structural shift to online shopping continues. During the year we made two property acquisitions, one warehouse and one leisure asset. The total gross acquisition cost for both properties was £11.9m with income of £1.15m giving a strong combined net initial yield of 9.7%.

We continue to actively asset manage our portfolio and at the year-end warehouse/ industrial accounted for 42% of portfolio valuation (2018 39%). At the other end of the spectrum one of the more challenging sub sectors has been retail where we have very limited exposure to the high street at just 8% (2018 10%). We also have 27% (2018 33%) of our portfolio in retail warehouses however we have strong tenant covenants, affordable rents and good access for both traditional shoppers or online shoppers using click and collect at these properties.

During the year we increased the total value of property assets on our balance sheet by 11.6% to £86.7m while maintaining our conservative view on debt with loan to property valuation (LTV) levels of 30% (2018 25%).

Our net asset value per share fell by 2.7% (32p per share), comprising income of 78.5p per share, an asset revaluation loss of 55.9p per share and dividends paid in the year of 54.75p per share. The revaluation loss was 3.6% on a like-for-like basis which compares favourably with an IPD all property capital value decrease of 3.8%.

## Covid-19

The global coronavirus pandemic, that was announced by the World Health Organisation on 11 March 2020, has introduced significant levels of uncertainty into most businesses. There are key uncertainties regarding the extent and duration of lockdown and social distancing measures which have impacted some of our tenants' ability to carry on their normal business and generate sufficient cash to pay their rent. While it is too early to assess the full impact that this will have on our tenants we are aware that, notwithstanding our strong tenant covenants, we will be unable to collect a proportion of our full Q2 rent on the usual payment days, or during the quarter. Whilst we have not agreed to waive any rent due by our tenants, this will influence our short-term cash generation. Consequently, we have challenged all our future assumptions and forecasts and run a sensitivity analysis and stress test. As a result, we are confident, based on the information available to us at the date of this report, that the group remains robust financially and has a viable model to continue to create shareholder value over the long term.

## Dividend

The company's interim dividend was increased 12.0% as a result of strong revenue growth and this revenue growth continued into the second half of the year. We have very carefully considered the level of final dividend for the year.

Whilst we recorded a robust set of results in 2019, we are in the midst of a global pandemic. We recognise the importance of the dividend to our shareholders but also that it is the group's most significant cash out-flow and that we need to manage our cash resources prudently at this difficult time. We are therefore recommending a final dividend of 27.00p per share which is a 20% decrease on the prior year, giving a total dividend of 48.00p per share, a decrease of 8.6% year-on-year. Whilst we have not met our stated strategy of increasing dividends in excess of inflation every year, I am sure that you will agree that we all find ourselves in exceptional circumstances at this time.

## Outlook

After a turbulent macro-economic environment in 2019, we ended the year with increased confidence levels for the UK property market and a higher degree of political certainty than for some time, following the UK general election result on 12 December and with a Brexit withdrawal agreement. Operationally we achieved a robust result in 2019 and entered 2020 with clear strategic direction, a well-balanced income producing portfolio and modest gearing.

During the first quarter of 2020 everything changed significantly as the impact of the Covid-19 pandemic began to unfold, and undoubtedly 2020 is likely to be an extremely challenging year for us all. Highcroft is however well positioned, with a well-diversified, high-quality property portfolio, a low level of gearing and a strong management team which should position us well to survive the current crisis and continue to create long-term shareholder value.

**Charles Butler**  
Chairman

# Group at a glance

## Our structure

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

 Read more about **Our business model** on page 14



## Investment case – 4 reasons to invest in Highcroft:

Read more about:

1. <b>Strong balance sheet and cash generative</b>	Our £86.7m, 874,000 sq ft of assets underpin our balance sheet and financial strength	<b>Our assets</b> on page 06
2. <b>Progressive dividend returns</b>	Our dividends have increased annually since joining the REIT regime in 2009 and by 85% over that period	<b>Our dividend history</b> on page 25
3. <b>Diversified and sustainable income from the UK property market</b>	We have 22 assets, spread across 5 sectors, geographically focused in the South of the UK with a WAULT of 6.3 years	<b>Our property portfolio</b> on page 06
4. <b>Strong internal management team, aligned with shareholders' interests, with a consistent track record</b>	Our experienced executive team has consistently delivered on our strategy	<b>Our board</b> on page 36

## Our property assets

Our property assets are valued at £86,710,000. During the year, our property assets decreased in value by 3.6% on a like-for-like basis and by 3.2% taking into account our acquisitions during the year.

### Total property asset value






**£86.7m**

### Property investments

We own 22 commercial properties, predominantly in southern England and Wales.



## Our core sectors

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

Numbering corresponds to order of assets by valuation

## Property valuation

Warehouse		£'000
2	Llantrisant	7,150
5	Nottingham	6,000
7	Milton Keynes	4,900
8	St Austell	4,750
10	Ash Vale	4,150
13	Andover	3,435
14	Kidlington	3,375
15	Bedford	3,100
Total		36,860

Retail warehouse		£'000
1	Wisbech	7,300
3	Grantham	7,100
4	Bicester	6,500
16	Crawley	3,000
Total		23,900

Leisure		£'000
6	Rubery	4,925
9	Ipswich	4,650
19	Coventry	2,175
Total		11,750

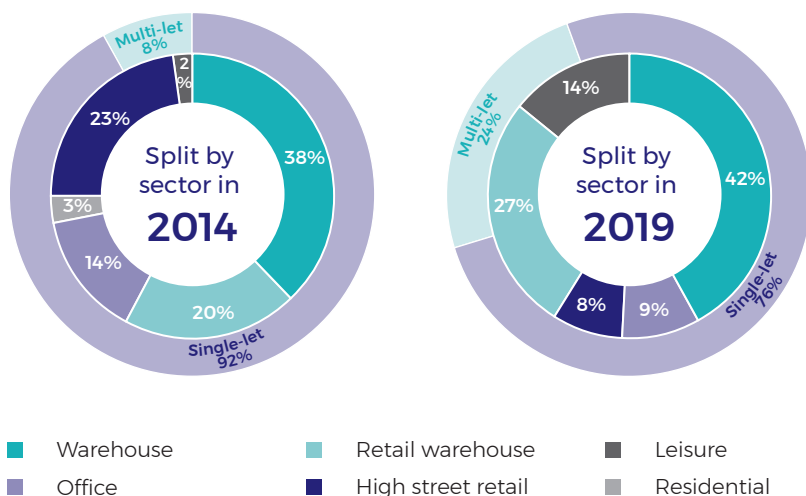
Office		£'000
11	Oxford	3,875
12	Cardiff	3,600
Total		7,475

High street retail		£'000
17	18 Oxford (2 units)	3,100
20	Leamington Spa	1,500
21	Norwich	1,175
22	Oxford	950
Total		6,725



## Property investments – shift in portfolio sector balance

Split by valuation



Read more about **Our performance** on pages 19 to 21

Read more about **Our portfolio** on pages 06 to 09

## Shift in portfolio

In 2014 the directors set an objective to rebalance the portfolio to take advantage of a changing property market. The emphasis was to move away from high street retail as shopping patterns were changing, principally due to the internet, and to focus more on warehousing and retail warehousing. It was decided that as the cost of managing the small residential assets in the portfolio was disproportionate to their value, the group would divest all of its residential properties. We have continued with this rebalancing in 2019.

## Portfolio outlook

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

## Investment properties at annual valuation

**£86.7m** +11.6%

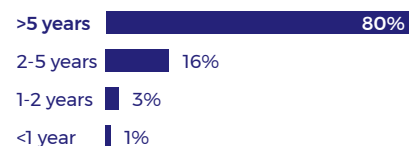


## Weighted average lease length

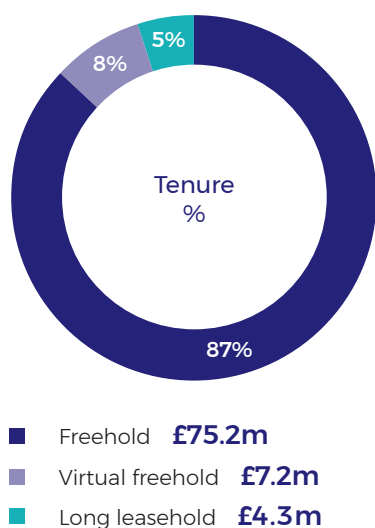
**6.3 years**



## Weighted average lease expiries

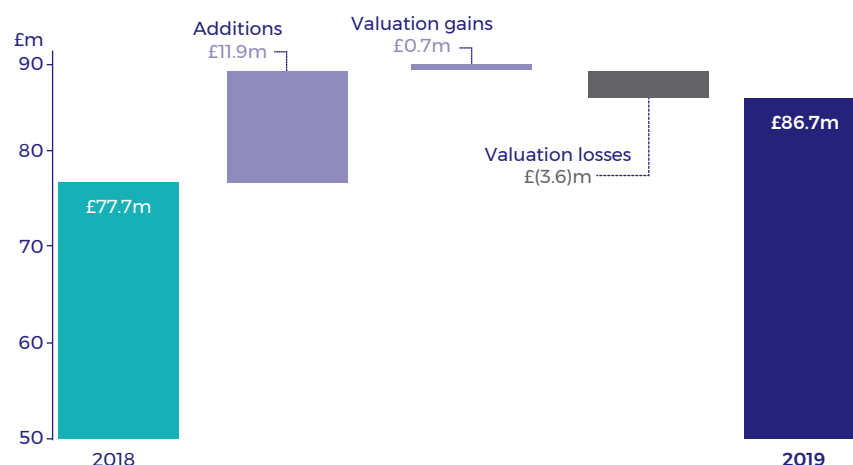


## Split by tenure




## Movements in property assets value

**+11.6%**



# Our portfolio

Our portfolio comprises of 22 properties, based predominantly in the south of England and Wales.

 Read more about **Our acquisitions** on pages 19 to 21

## Warehouses

### Andover



Size sq. ft.

**19,330**

Tenure

Long **Leasehold** warehouse

Let to Saint-Gobain

t/a **JEWSON**

### Ash Vale



Size sq. ft.

**25,000**

Tenure

**Freehold** warehouse

Let to

**SIG** CONSTRUCTION ACCESSORIES

### Bedford



Size sq. ft.

**40,500**

Tenure

**Freehold** warehouse

Let to

**BOOKER** WHOLESALE

### Llantrisant (acquisition 2019)



Size sq. ft.

**111,000**

Tenure

Virtual **Freehold** warehouse/r&d facility

Let to

**BRITISH AIRWAYS** AVIONIC ENGINEERING

### Milton Keynes



Size sq. ft.

**43,500**

Tenure

**Freehold** warehouse

Let to

**IKEA**

### Nottingham



Size sq. ft.

**84,000**

Tenure

**Freehold** warehouse

Let to

**BOOKER** WHOLESALE



Total value: **£36.9m****Kidlington**

Size sq. ft.

**30,250**

Tenure

**Freehold**  
warehouse

Let to

**St Austell**

Size sq. ft.

**250,000**

Tenure

**Freehold**  
warehouse

Let to



## Retail warehouses

Total value: **£23.9m****Bicester**

Size sq. ft.

**29,130**

Tenure

**Freehold**  
retail warehouse

Let to

**Wickes****Crawley**

Size sq. ft.

**6,900**

Tenure

**Freehold**  
retail warehouse

Let to

**pets at home****Grantham**

Size sq. ft.

**42,000**

Tenure

**Freehold**  
retail warehouse

Let to

**Wisbech**

Size sq. ft.

**55,650**

Tenure

**Freehold**  
retail warehouse park

Let to



# Our portfolio

## Portfolio facts

Number of properties

22

Number of covenants

28

Number of tenancies

30

Occupancy

100%

Total value

£86.7m

## Leisure

Total value: **£11.7m**

### Coventry



Size sq. ft.

5,955

Tenure

**Freehold**  
leisure

Let to



### Ipswich (acquisition 2019)



Size sq. ft.

43,566

Tenure

**Freehold**  
leisure/retail

Let to



### Rubery



Size sq. ft.

37,540

Tenure

**Freehold**  
leisure

Let to





## Office

Total value:  
**£7.5m**

## Oxford Summertown



Size sq. ft.

**11,500**

Tenure

**Freehold**  
offices

Let to



## High street retail

Total value: **£6.7m**

## Leamington Spa



Size sq. ft.

**5,721**

Tenure

**Freehold**  
shop

Let to Sabre Retail Ltd

t/a **MINT VELVET**

## Norwich



Size sq. ft.

**5,530**

Tenure

**Freehold**  
shop

Let to



## Cardiff



Size sq. ft.

**17,800**

Tenure

**Freehold**  
offices

Let to



## Oxford High Street



Size sq. ft.

**1,740**

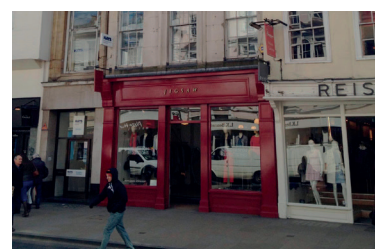
Tenure

**Freehold**  
shop

Let to



## Oxford High Street



Size sq. ft.

**6,895**

Tenure

One long **Leasehold**  
One **Freehold** shop/  
office

Let to Robinson Webster

t/a **J I G S A W**

# Strategic report

Our marketplace	12
Our business model	14
Our strategy	16
Our key performance indicators	18
Operating review	19
Financial review	22
Our risks	26
Corporate social responsibility	30

## Case study

### Recent acquisition

Warehouse – Ely Meadow, Talbot Green, Llantrisant		December 2019 valuation: <b>£7,150,000</b>
Purchased <b>March 2019</b>	<b>Occupied by:</b> <b>British Airways Avionic Engineering Ltd (BAAE)</b>	
Current tenant <b>BAAE</b>	<b>Reason for acquisition</b> In March we acquired the virtual freehold interest in a maintenance, research and development facility at Ely Meadow, Talbot Green, Llantrisant. The property comprises approximately 111,000 sq ft on 21 acres let to BAAE for a term expiring in March 2024. The rent is £805,011 pa reflecting a rent per square foot of £7.25.	
Rental income <b>£805,011 pa</b>	<b>How this links to strategy</b> This acquisition is part of our continued policy of finding attractive returns for our shareholders from properties with additional future potential and which have prospects of good rental growth, whether this is from identifying under-rented situations or by adapting or reconfiguring properties in the future to achieve enhanced returns.	
Cost <b>£6,950,594</b> (£6,499,550 net of costs)	The property was acquired because of the low rent, compared to nearby competing centres, and the attractive yield of 11.6%.  The property offers the opportunity, in the future, of division into smaller units. The original development was done in three separate buildings each of which is capable of further subdivision. In addition, there is a vacant site for future expansion/development.	
Net initial yield <b>11.6%</b>	This property was purpose built approximately 25 years ago for BAAE which has been in occupation ever since. BAAE provides repair and overhaul services to BA and to other customers. The cancelling of the tolls on the Severn Bridge will have a significant benefit to the tenant and the many lorry journeys that are made to Heathrow every day. British Airways has a strong commitment to South Wales.	








# Our marketplace

## Covid-19

The most significant impact on our marketplace at the time of this report is Covid-19. The effect on our tenants is uncertain, but in many cases will have a negative impact. The immediate effects on the global stock market are clear but the duration and severity of the outbreak in the UK and globally are extremely difficult to predict.

 Read more about **Our risks** on pages 26 to 29

We have already seen shops in the UK close temporarily and this includes all our four high street retail units.

The government has started to introduce measures to help businesses in the most affected sectors which should assist many of our tenants.

## Economic backdrop

The UK economy grew by 1.1% in 2019. This slowdown in economic activity reflects the continued uncertainty regarding Brexit during the year and followed a poor performance in 2018. While the December 2019 general election result has provided more certainty around Brexit, the economy is still uncertain and was predicted to grow by only 1.0% in 2020, assuming an orderly exit from the EU and prior to the coronavirus outbreak.

This 2019 data when compared to the projected data for the G7 group of major advanced economies put our performance in 4th place behind the United States, Canada and France but ahead of Japan, Germany and Italy.

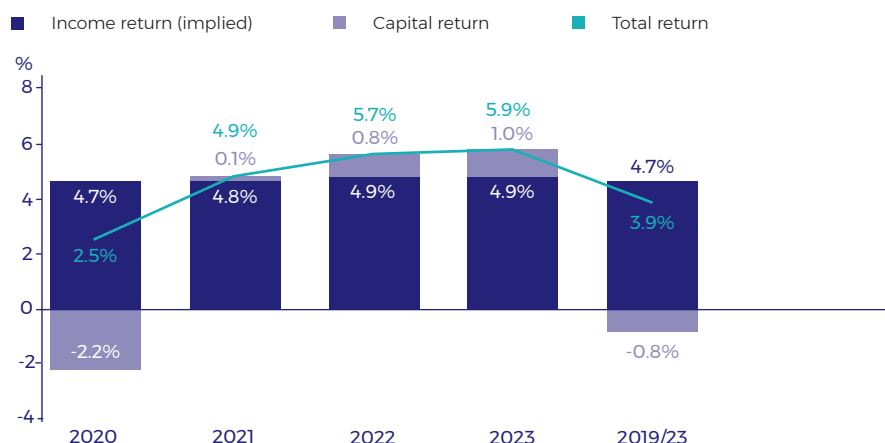
## The effect of Brexit

In the UK, 2019 was a year dominated by Brexit; the repeated lack of support for any exit deal from the EU that the government proposed led to a great deal of uncertainty and lack of confidence in the business community and investment markets. For many this created stagnation, which was only given promise of alleviation in December with the outcome of the general election; it remains to be seen what the final exit deal will be, and whether it will be delayed by coronavirus.

## Competitive landscape

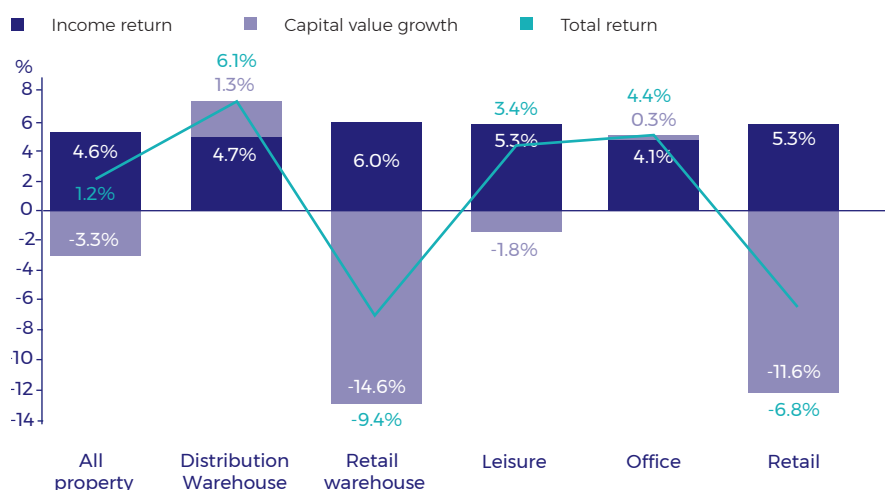
In spite of Brexit, the UK remained one of the top three markets for cross border investment in 2019. With many of last year's political uncertainties now overcome, it was hoped that competition in investment markets would improve, although this will be tempered until coronavirus is contained and the terms of a future relationship with the EU are finalised. The attraction of the UK economy improving following December's election result could easily

## All property total return forecasts (prior to Covid-19 outbreak)



Source: IPF research November 2019

## MCSI data 2019



be outweighed by the weakening of the pound and the impact of coronavirus.

## Growth areas

We anticipate further demand in the industrial and logistics sectors for storage and distribution space as the popularity and growth of online shopping continues. There may also be a strong demand for in-town units that cater for 'last mile' distribution.

This continued growth of e-commerce creates complex issues and challenges of getting goods to consumers, particularly in large cities. This has led to a surge in demand for urban logistics. This highly constrained market has led to downward pressure on yields and an increase in rents. The increased demand in this sector in 2019 has influenced investors into looking at retail parks and suburban shopping centres where it is possible to incorporate logistics.

All of these growth areas may be affected by the current Covid-19 pandemic.

## Outlook

The Covid-19 pandemic has created great uncertainty in the marketplace. Prior to the outbreak, Boris Johnson's increased majority, and the evaporated threat of a Labour government, had given the markets clarity and a renewed confidence that Brexit will be achieved. However, the initial exuberance has been short-lived as the UK faces the reality of dealing with Covid-19 and of achieving a future trade relationship with the EU by 31 December 2020.

Total returns for 2019 were 0.6%, driven principally by the retail sector. Forecasts for 2020 are not currently available but we expect them to be much lower than 2019.

Climate issues will become more prominent in 2020 and beyond with landlords required to upgrade buildings to meet stricter requirements to protect the environment. Landlords may be dictated to by the mix and needs of occupiers, rather than the other way around as long leases become more uncommon.

Market trends	What this means for Highcroft	Our response to these trends
<b>High street retail</b>		
• An increase in the number of retailers going into liquidation/CVAs.	• None of our tenants defaulted or went into CVA or liquidation in 2019.	• We monitor our tenants and request trading accounts where necessary. We only hold properties in good trading locations.
• An increase in online retailing.	• A potential impact on the future rental growth of our high street retail and retail warehouse assets.	• We have reduced our exposure to the high street over the past few years and closely monitor our retail warehouse properties.
• Interest rates remain low. Inflation is 1.8%, rising from the December 2019 rate of 1.4% which was the lowest level since the beginning of 2017.	• Consumer confidence should increase with the election over and Brexit likely to be finalised.	• Our assets should perform if consumer spending increases.
<b>Industrial and offices</b>		
• Continued demand for warehousing and logistics – especially the 'last mile' category for in-town deliveries.	• High prices are still being achieved making it difficult for Highcroft to buy and to show good returns – although we still seek out opportunities.	• We manage our properties to reflect tenants' requirements and achieve the best rents on review and renewal.
• Increased demand for offices in central London and certain large regional centres.	• We do not intend to compete for central London properties due to lot size and yields being outside our criteria.	• We continue to seek opportunities in the regions.
• The WeWork saga has undermined confidence in certain landlords and sectors.	• Offices comprise less than 10% of our portfolio by value and our properties are well let to good covenants.	• We have not ventured into the flexible office market and do not anticipate doing so in the immediate future.
<b>Investment</b>		
• Investment volumes were down approximately 20% from 2018, largely due to uncertainties over Brexit and political uncertainty during the year.	• There is still enough availability of property for Highcroft to make acquisitions in line with our stated strategy.	• We acquired assets at the beginning of 2019 to take advantage of good opportunities in a quiet market.
• Local Authorities had their Public Works Loan Board (PWLB) interest rate increased by 1% to 2.82% in October 2019.	• While local authorities were still active buyers, the increase in the PWLB interest rate led to less competition at the end of 2019.	• We sold one asset to a local authority at the end of 2018 while PWLB rates were low. Future purchasing opportunities can be pursued without the distortion of local authority purchasers.
• Overseas investors were still active but more cautious due to political uncertainty and Brexit, notwithstanding the weakness of sterling.	• Less competition in the market with foreign investors concentrating on London and the south-east.	• Reduced competition in our geographical areas of search means more opportunities.
• Investors still seeking secure, well-let investments on long leases.	• Prices for this category are still very keen.	• Highcroft is prepared to look at alternatives to this to obtain better returns on properties we consider have a good long-term future.

# Our business model

## Our business model and structure

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

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





## Our purpose

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

## The value we generate

### Shareholders

Short-term: Secure dividend income stream.

Medium-term: Income growth in excess of inflation.

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

### Tenants

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

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

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

### Society

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


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


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


### Employees

Short-term: Rewarding our directors and employees in line with the market.

Medium-term: Having an element of the director's incentive plan that aligns remuneration with shareholder performance.

 Read more about **Our performance** on pages 18 to 21

 Read more about **Our portfolio** on pages 06 to 09

 Read more about **Our acquisitions** on pages 19 to 21

## Dividend

# 48.00p

per share

## Gross property income growth

# 15.8%

## Occupancy

# 100%

## Highcroft incentive plan

# approved and implemented

# 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. During the year, we have reviewed our strategy to ensure that we are promoting the success of the company.

Strategic priority/goal	How this priority will help us achieve our overall objective	Progress in 2019	Future direction	Link to risk – page 27
<b>Building a portfolio of high quality commercial properties in the right places occupied by the right tenants with good lease fundamentals</b>				
<b>A</b> Continue to grow our commercial property portfolio with a bias towards the south of England and Wales.	The directors regard commercial assets in these geographical areas as being best placed to outperform the market in any cycle. These locations are also considered relatively low risk and fit our risk profile.	Our new acquisitions in Llantrisant and Ipswich have resulted in a larger portfolio which retains our preferred geographical bias.	As asset sourcing is likely to remain challenging in 2020 the geographical spread may need to be expanded to ensure that adequate yields are maintained without increasing the inherent risk to an unacceptable level.	1 2 3 4
<b>B</b> Increase the average lot size to £5m with no asset representing more than 15% of the portfolio.	As many costs are directly related to the number of assets rather than their size, increasing the average lot size should reduce average property costs thus increasing the net property income available for distribution.	Average lot size increased slightly to £3.94m from £3.89m.	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
<b>C</b> 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.	Our new acquisition in Llantrisant provides growth opportunities in the medium to long-term.	Options are being considered for additional asset management opportunities.	1 2 3 4 5
<b>Using available capital, including debt, efficiently and effectively</b>				
<b>D</b> Continue to reduce the proportion of our assets held in equities and reinvest the cash in commercial property.	Becoming a pure REIT will ensure management focus and yield enhancement thus increasing the net property income available for distribution.	£0.7m realised from the disposal of all our remaining listed equities in February 2019.	This goal has now been achieved.	-
<b>E</b> 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.	£11.9m of acquisitions funded by a combination of £0.7m from equity disposals, £6.8m of new medium-term debt, and cash generated from property disposals in 2018. Our debt has increased to £26.2m.	We have negotiated headroom with one lender of £7.8m and would consider additional gearing to fund further acquisitions alongside existing cash resources.	5 6
<b>Deliver a sustainable income growth to our investors</b>				
<b>F</b> 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.	Decrease in property income distribution payable of 8.6% due to Covid-19 pandemic.	As a REIT we are required to distribute 90% of our net property profits.	ALL

## Risk key

- 1 Economic outlook
- 2 Political and regulatory outlook
- 3 Occupier demand and tenant default

- 4 Commercial property investor demand
- 5 Availability and cost of finance
- 6 Business strategy

- 7 Key personnel

## How we promote the success of the group


In accordance with the requirements of S172(1) Companies Act 2006, the board promotes the success of the group for all its stakeholders by ensuring that, when taking decisions and developing strategy, it:

	Example of work in action	Further information in:
<b>Considers the long-term consequences.</b>	Property acquisitions/disposals are considered by reference to the impact that they will have on current and future returns given the risk environment that we anticipate in the short and long-term.	the <b>Operating review</b> on page 19
<b>Considers the environmental and community impact.</b>	Improvement works in common areas of multi-let properties are designed to reduce any adverse environmental impacts where practicable.	<b>Corporate social responsibility</b> on page 30
<b>Has regard to the need to act fairly between members of the company.</b>	The directors regularly engage both formally and informally with the two key concert parties throughout the year and with all shareholders at the AGM. Highcroft has only one class of share and considers carefully any issues raised by members at the AGM or by other means.	the <b>Corporate governance report</b> on page 38
<b>Considers the impact on other business relationships.</b>	<p>The directors work closely with tenants, holding direct relationships where possible, to ensure that any potential or actual issues or opportunities are acted upon swiftly and professionally.</p> <p>The directors have a close working relationship with all key members of our external advisory team and will consult, as appropriate, with them to ensure, for example, that there are no conflicts of interest. Highcroft ensures that where purchasing criteria are met creditors are paid within terms.</p>	<b>Corporate social responsibility</b> on page 30
<b>Considers the interests of the employees.</b>	As Highcroft only has one employee other than the directors this matter is considered informally.	
<b>Considers its reputation in the marketplace for high standards of business conduct.</b>	<p>Key decisions are made by the board as a whole with adequate briefing to inform that decision and ensure that high standards are maintained.</p> <p>Highcroft endeavours to always act fairly and responsibly in all transactions by meeting agreed timetables and payment terms.</p>	the <b>Corporate governance report</b> on page 38



# Our key performance indicators

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.

 Read more about **Our strategy** on pages 16 and 17

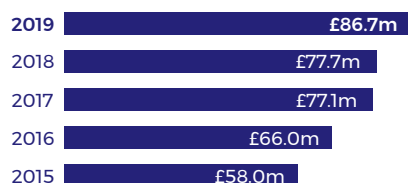
## KPI key

**1-4** Financial KPIs

**5-6** Non-financial KPIs

### 1. Increase value of property assets

**£86.7m** +11.6%



Link to strategic priorities:

**A D E F**

#### Why we use this indicator

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

#### Commentary on performance

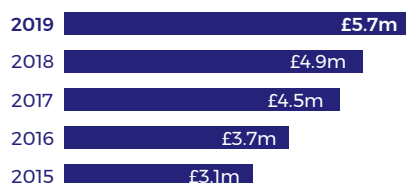
The value of our assets has decreased by £2,888,000, 3.6% on a like-for-like basis, or 3.2% on an actual basis. For more details see page 19.

#### 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 compared to the market in a challenging year.

### 2. Increase net property income

**£5.7m** +16.4%



Link to strategic priorities:

**A B D E F**

#### Why we use this indicator

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

#### Commentary on performance

Net property income increased by 16.4% in the year and has increased by 82.1% over the last five years. These increases primarily result from the effect of acquisitions in the year. Further information on the performance in 2019 is on page 19.

#### Looking forward

Net property income may increase in 2020 through a full year of income on our 2019 acquisitions and lease events on existing assets, net of any adverse effects of the coronavirus.

### 3. Increase net asset value per share

**1175p** -2.7%



Link to strategic priority:

**A C D E**

#### Why we use this indicator

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

#### Commentary on performance

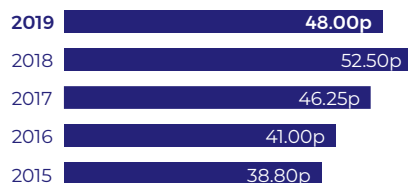
Net asset value per share decreased by 2.7% in 2019 although it has increased by 14.5% over five years.

#### Looking forward

The market remains challenging in 2020 but our asset base is strong and we believe that it is well placed to maintain our market position in 2020.

### 4. Increase dividends payable to shareholders

**48.00p** -8.6%



Link to strategic priority:

**F**

#### Why we use this indicator

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

#### Commentary on performance

The 8.6% decrease in 2019 due to the effect of the Covid-19 pandemic.

#### Looking forward

It is hoped that future, after the effect of Covid-19 has been dealt with, increases will return to being in excess of inflation.

### 5. Maintain the quality of our tenant covenants



Link to strategic priority:

**F**

#### Why we use this indicator

This indicator gives information on the quality of our long-term income stream.

#### Commentary on performance

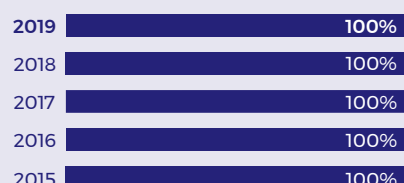
We continue to have the majority of our properties let to strong covenants.

#### Looking forward

The strength of the covenant will remain important in assessing new acquisitions and in the performance of our portfolio in a challenging period.

### 6. Average occupancy in our portfolio

**100%**



Link to strategic priority:

**F**

#### Why we use this indicator

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

#### Commentary on performance

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

#### Looking forward

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

# Operating review



**“ We have continued with our strategy of purchasing well let, well located, properties with good commercial fundamentals.”**

**Simon Gill**  
Chief executive

Contracted rent at year end

**£6.3m**

Increase in contracted rent at year end

**24%**

Rental pipeline

**£38.3m**

Increase in rental pipeline

**18%**

## Property income

In 2019 we continued with 100% occupancy throughout our portfolio and, in contrast to many, did not have any problems with our tenants by way of administrations, receiverships or CVAs. We did not make any disposals in the year, but our two acquisitions enhanced our contractual income considerably.

	2019 £'000	2018 £'000	Change in year
Contracted rent at year end	<b>£6,253</b>	£5,025	+24%
Occupancy	<b>100%</b>	100%	

There were no voids nor any void costs in the portfolio as a result of our watchful management of the properties and our close liaison with our tenants. There are certain lease events which should enhance the income and improve the unexpired terms of the leases which are currently in progress.

## Investments

In line with our stated strategy we have:

- Focused on our commercial property assets, and
- Disposed of our remaining listed equity investments.

Our property valuation decreased by 3.2% and our like-for-like valuation (which excludes the effects of acquisitions in the year) decreased by 3.6%. This compares favourably to the IPD annual all property capital value decrease of 3.8%. There was a significant increase, 12.5%, in the valuation of our Cardiff property due to a lease renewal at a significantly higher rent. The industrial sector continued to maintain value but should show increases in the future once ongoing management matters have been concluded. In line with the market, our retail sector witnessed noticeable decreases in valuation as the high street and retail warehousing sectors continue to suffer; there were falls of up to 9% for most of the properties in these sectors but Oxford High St and Leamington Spa showed greater valuation losses due to the effect of the new shopping centre in Oxford, and the threatened closure of the House of Fraser store in Leamington Spa which lies very close to our property.

## Property acquisitions

In March 2019 we purchased the virtual freehold interest of a maintenance, research and development facility investment in Llantrisant, South Wales. The property was originally purpose built for, and is still occupied by, British Airways Avionic Engineering Limited and comprises approximately 111,000 sq ft, together with a development site, on a 21 acre site.

The current rent is £805,011 pa and a price of £6,950,594 (including costs) was paid reflecting a net initial yield of 11.6%. (More details can be found on pages 22 to 25)

In May 2019, we completed on the acquisition of a property in Ipswich comprising a fitness centre and a motorcycle showroom occupying a site of 3.1 acres. The fitness centre is let to Dave Whelan Sports Ltd until September 2035 and has the benefit of fixed rental uplifts throughout the term. The showroom is let to Orwell Motorcycles Ltd until September 2026 and also has the benefit of fixed uplifts.

The total rent is £347,557 pa which will rise to £386,769 pa in September 2020 with further fixed increases in 2021, 2025 and 2030. A price of £4,947,095 (including costs) was paid to show a net initial yield of 7.0%. (More details can be found on pages 22 to 25).

# Operating review continued

## Property disposals

We made no property disposals in 2019.

## Sector balance

The sector balance in our portfolio is now:

	2019 %	2018 %	2017 %	2016 %	2015 %
Warehouse	42	39	40	29	34
Retail warehouse	27	33	34	39	33
Retail	8	10	13	18	20
Office	9	9	9	10	12
Leisure	14	9	3	3	0
Residential	0	0	1	1	1
Total	100	100	100	100	100

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

## Covid-19

Covid-19 has had a significant impact on many of our stakeholders. The spread of our assets over several sectors has protected us from some of the worst impacts on the high street. It is too early to predict the full effect of the pandemic on our rent collections and valuation figures, however the effects are likely to be significant. We are working closely with our tenants and asset managers to maximise our collections..



**Simon Gill**  
Chief executive





with

**Simon Gill**  
Chief executive

### Q How did Highcroft perform in 2019?

**A** In a challenging marketplace our underlying financial performance was strong. Our net rental income has increased by 16.4% and our profit from revenue activities (excluding the effect of realised gains on property) by 14.3%. While our property valuation decreased by 3.2% on a like-for-like basis, this compares favourably to the IPD annual figure of a 3.8% decrease. This performance provides us with a secure base to enable us to deal with the current Covid-19 outbreak.

### Q How has the portfolio shifted in the last year?

**A** We set out our strategy to rebalance the portfolio over 5 years ago. We considered the forecast trends away from high street retail, particularly in secondary locations. This trend was driven by the increasing use of the internet. We focused more on well located, well let, warehousing and retail warehousing and leisure assets. In 2019 we continued the rebalancing with the acquisition of two new assets; firstly, a warehouse in Llantrisant and secondly a leisure asset in Ipswich. This has increased our warehouse assets to 42% of the portfolio (from 39%) and leisure assets to 14% (from 9%) with all other sectors reducing or staying the same as a result of both these acquisitions increasing the overall size of the portfolio and the valuation movements in the year. This shift in sector balance has shielded our portfolio to some extent from the poor capital performance of retail and retail warehouse assets in 2019.

### Q How will the two new acquisitions contribute to the long-term success of Highcroft?

**A** Our two new acquisitions in 2019 both offer good opportunities for Highcroft in the future. As secure, single let investments have got ever more expensive we have changed our scope in seeking for properties to acquire; this can be seen in our Llantrisant property where we achieved a high yield of 11.7% on purchase. Not only do we receive an excellent return on our money, but the property is capable of multiple sub-division in the future whereupon we will be able to achieve rental levels that are currently being paid in nearby competing centres. The rent being paid by BAAE Ltd equates to £7.25 per sq ft which compares to over £12 in Newport and over £25 in Cardiff. In addition, there is a vacant site capable of development, subject to planning.

Our Ipswich property provides Highcroft with a good long-term income stream (until 2035) which has the benefit of fixed rental increases throughout the term of the leases; our initial yield on acquisition of 7% should rise to over 8% in 2021. The property could have alternative uses, notably retail warehousing where rents in the town are significantly in excess of those currently being received. Having river frontage, the site would also be suitable for residential development in the future which would complement other developments nearby.

### Q How does Highcroft compete in a competitive market?

**A** The co-ordination and efficiency of a small executive team means that decisions are made quickly as all directors are furnished with all the required information for any given event. This ability to respond within very short timescales, and being a REIT, makes us attractive to vendors; our performance can be evidenced by the speed of some of our transactions notably on our Nottingham acquisition where we achieved completion within three days of solicitors being instructed.

Additionally, we seek opportunities that are off-market or before they are exposed to the general market.

# Financial review



**“ In a challenging marketplace our underlying financial performance for the year was strong – with increasing net property income and total shareholder return.”**

**Roberta Miles**  
Finance director

## Overview

	2019	2018	Change in year
<b>Profitability</b>			
Net rental income	<b>£5,656,000</b>	£4,859,000	+16.4%
Adjusted earnings per share	<b>78.5p</b>	87.3p	-10.1%
IFRS profit for the year	<b>£1,140,000</b>	£4,926,000	-76.9%
Net admin expenses to gross rent	<b>14.1%</b>	14.6%	-50bps
<b>Investment returns</b>			
Net asset value per share	<b>1175p</b>	1207p	-2.7%
Dividend payable per share	<b>48.00p</b>	52.50p	-8.6%
Total shareholder return	<b>12.7%</b>	5.2%	+750bps
Return on equity*	<b>1.9%</b>	8.1%	-76.5%
<b>Financing</b>			
Net debt	<b>£24,641,000</b>	£14,198,000	£10,433,000
Net debt to property value	<b>28%</b>	18%	+10%
Average cost of debt	<b>3.50%</b>	3.64%	-

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

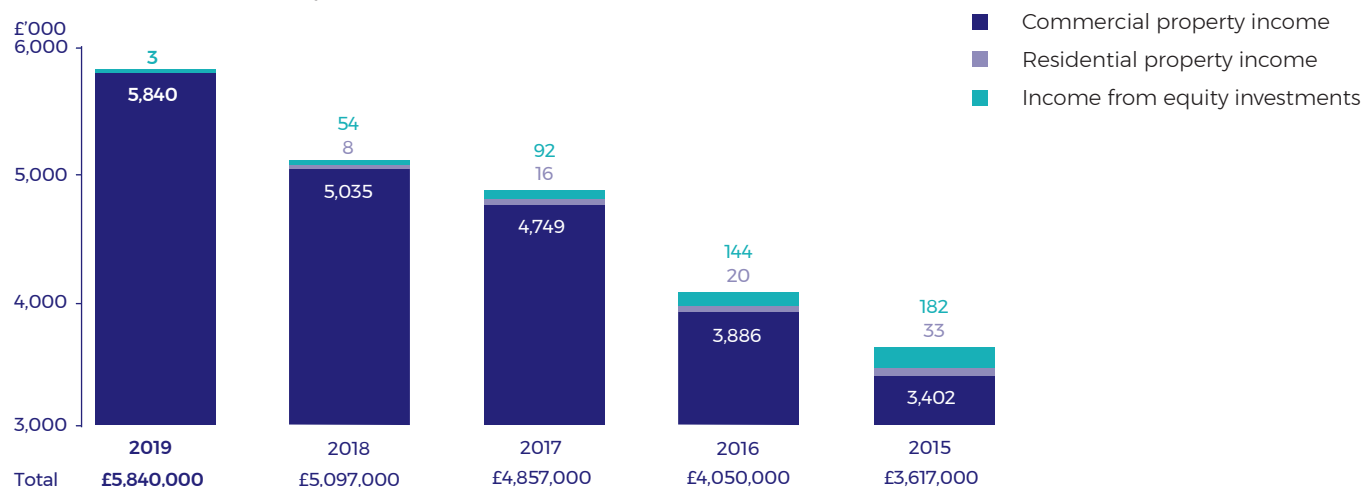
The group has continued to perform strongly during the year ended 31 December 2019; gross rental income increased strongly by 16% to £5,840,000 and net rental income also by 16% to £5,656,000. This has arisen from rental growth, from our two acquisitions in the year and recognising a full year of income from our acquisition completed in July 2018. While our administrative costs and finance costs also increased in the year our underlying adjusted revenue profit (excluding realised and revaluation gains) has increased by 14%. Our final dividend has been affected by the Covid-19 pandemic starting in March 2020.

Net assets have reduced by 2.7% to £60,695,000 and we have a moderate net debt to property value of 28%. The average cost of debt is 3.50%. Our investment properties decreased in value by £2,888,000 (3.59% on a like-for-like basis). We disposed of our remaining listed equity investments in February 2019.

We are proposing a final dividend this year of 27.00p per share giving a total dividend for 2019 of 48.00p per share, a decrease of 8.6%. Since 2009 (our first full accounting year as a REIT) our dividends have risen by a total of 85% – a compound annual increase of 6.3%. In the same period our net assets per share have increased by 76% from £6.66 to £11.75 per share.

## Income

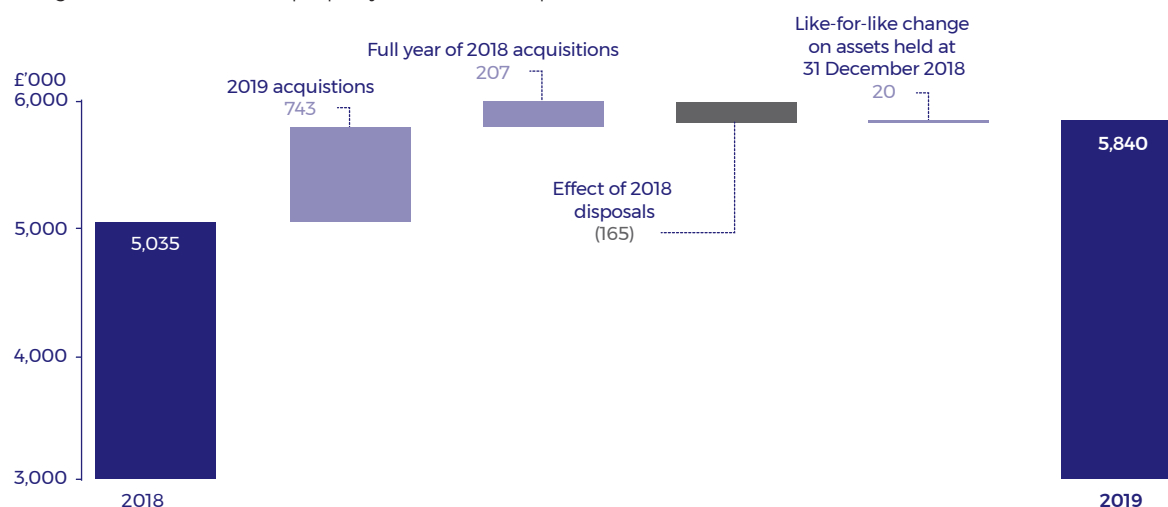
Total income has increased by 14.6%.



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

	2019 %	2018 %	2017 %	2016 %	2015 %
Increase in gross rental income	16	6	22	14	12

The growth in commercial property income is comprised as set out below:



The income from equity investments has reduced in line with the disposal of the remainder of our listed equity portfolio in February 2019.

## Administration and other expenses

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Directors' remuneration	597	541	492	451	378
Auditor's remuneration including other services	35	32	31	58	37
Other expenses	194	163	140	142	118
Administration expenses	826	736	663	651	533
Net finance expense	850	699	649	495	358
Total expenses	1,676	1,435	1,312	1,146	891

In 2019 the group carried out a benchmarking exercise on directors' pay that considered remuneration in the context of the business and regulatory environment that we operate in, and it introduced the Highcroft incentive plan. These measures have resulted in an average 5% rise in executive directors' remuneration and an average 30% rise in non-executive directors' remuneration. These changes are described in more detail in the directors' remuneration report. Finance costs increased as a result of the new medium-term borrowing of £6,800,000 that took place during the year. Other expenses have increased due to rises in professional fees arising from the one-off exercise undertaken with remuneration consultants regarding the benchmarking and incentive plan and also an increase in corporate finance advisory fees arising as a result of our change in broker.

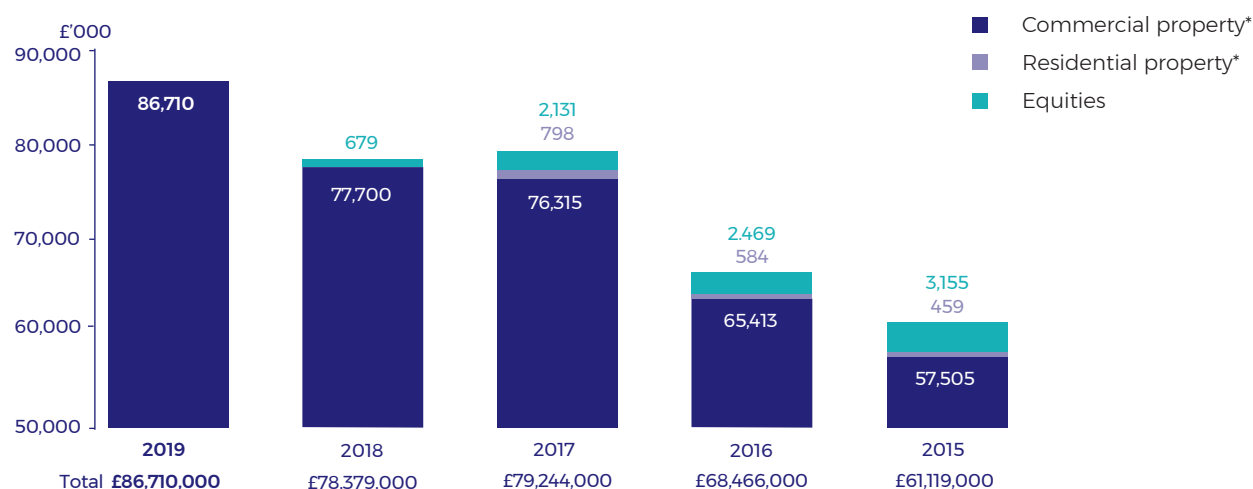
# Financial review continued

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

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Profit before tax	3,983	4,445	3,287	2,840	2,815
Income tax credit	72	67	61	72	56
Profit for the year	4,055	4,512	3,348	2,912	2,871

The decrease in the revenue profit for the year in 2019 was influenced by an increase in net rental income of £797,000, a decrease in net realised gains on investment property of £967,000, a decrease in dividend revenue of £51,000, and increases in administration expenses of £90,000 and net finance expenses of £151,000. Excluding the effect of the realised gain on property the underlying increase in profit arising from revenue activities is £510,000 (14.3%).

## Investments



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

Our investments increased due to acquisitions net of revaluation losses.

## Summary of property investment activities

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Acquisitions at cost*	11,898	5,226	10,086	9,896	8,590
Net proceeds from disposals	-	(6,090)	(2,259)	(2,972)	(2,332)
Net investment/(divestment) into/(from) the property portfolio	11,898	(864)	7,827	6,924	6,258

\* More details of our property additions can be found on pages 19 to 21

## 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:

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Realised gains on investment property	-	967	1	134	418
Realised losses on investment property	-	-	-	-	-
	-	967	1	134	418
Revaluation gains on investment property	739	2,600	3,365	2,509	4,840
Revaluation losses on investment property	(3,627)	(2,116)	(77)	(1,536)	(75)
	(2,888)	484	3,288	973	4,765

Overall, our property portfolio reduced in value during the year by £2,888,000 which represents 3.6% on a like-for-like basis and 3.2% on an absolute basis. Our most significant revaluation gains related to our two office properties, as a result of one lease renewal and the attractiveness of a long-term income stream at the other property. The most significant revaluation losses were all in our retail and retail warehouse assets where a further move in market sentiment has resulted in a reduced valuation. The valuation movement by class of assets is shown overleaf.



## Valuation movement by class of assets

	Valuation movement £'000	Movement to opening value or cost if later
Office	540	7.8%
Warehouse	(231)	(0.6%)
Leisure	(397)	(3.3%)
Retail warehouse	(1,550)	(6.1%)
Retail	(1,250)	(15.7%)
Total	(2,888)	(3.2%)

## Equity investments

In 2019, in line with our strategy to sell down the portfolio and reinvest in new commercial property, we realised £724,000 of cash from our equity portfolio, disposing of all our remaining listed equity investments. We invested this, together with existing cash resources and new medium-term borrowings into our two new assets. Additional information regarding our equity movements in the year is in note 9 to the consolidated financial statements.

## Financing and cashflow

Net cash generated from operations was £60,000 lower at £3,560,000. The reduction primarily arose from the decrease of rent receivable as cash, due primarily to the rent incentives associated with our Llanstrat acquisition. It is the directors' intention to reinvest surplus cash into the commercial property portfolio when suitable opportunities arise.

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Opening cash	5,202	1,904	3,369	4,852	2,039
Net cash from operating activities	3,560	3,620	3,568	2,909	2,523
Investment acquisitions – property	(11,898)	(5,226)	(10,086)	(9,896)	(8,590)
Investment acquisitions – equities	–	–	–	(3)	(7)
Investment disposals – property	–	6,090	2,259	2,972	2,332
Investment disposals – equities	724	1,333	477	1,176	969
Dividend paid	(2,829)	(2,519)	(2,183)	(2,041)	(1,914)
Medium-term loan	6,800	–	4,500	3,400	7,500
Closing cash	1,559	5,202	1,904	3,364	4,852

## Analysis of borrowing

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Handelsbanken term loans 2029	6,800	–	–	–	–
Handelsbanken term loan 2027	4,500	4,500	4,500	–	–
Handelsbanken term loan 2026	3,400	3,400	3,400	3,400	–
Handelsbanken term loan 2022	7,500	7,500	7,500	7,500	7,500
Handelsbanken term loans 2020	4,000	4,000	4,000	4,000	4,000
Total debt	26,200	19,400	19,400	14,900	11,500
Cash	(1,559)	(5,202)	(1,904)	(3,369)	(4,852)
Net debt	24,641	14,198	17,496	11,531	6,648
Net assets	60,721	62,384	59,977	55,325	53,023
Gearing (net of cash)	41%	23%	29%	21%	13%

Our average cost of total debt was 3.50% (2018 3.64%).

## Outlook

The directors remain cautious given the investment and occupational commercial property markets' reaction to the current macro-economic climate and in particular to the Covid-19 pandemic. However, we believe that the quality of our assets, our ongoing asset management programme and spread of sector risk, all combined with our concentration of assets in the south east of England and Wales means that we are well placed to deal with the impact of Covid-19 upon our business.

We remain cautiously 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  
30 April 2020

# Our risks

## Risk management

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. While 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 overleaf. 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 overleaf.

## Brexit

The result of the December 2019 general election provided some certainty to the timing of Brexit. However, the potential impact of the Brexit process remains uncertain. We have not, to date, seen any material impact on our own tenants arising from the Brexit process; however, there is an ongoing risk that investor and occupier demand could be negatively impacted. We anticipate that the strengths of our portfolio – in terms of location, lease lengths, covenants, and sector spread will minimise the impact of this risk.

Our tenants are spread across a range of business sectors. Most of them are heavily exposed to imports and/or exports and to the need to have access to an appropriate workforce. While the final details of Brexit are uncertain there is a concern that many of our tenants' business models may be adversely affected in the short and medium-term by the Brexit process.

## Covid-19

The global Covid-19 pandemic, that was announced by the World Health organisation on 11 March 2020, has introduced significant levels of uncertainty into most businesses. There are key uncertainties regarding the extent and duration of lockdown and social distancing measures which impact some of our tenants' ability to carry on their normal business and generate cash to pay their rent. While it is too early to assess the full impact that this will have on our tenants we are aware that, notwithstanding our strong tenant covenants, we will be unable to collect our full Q2 rent on the usual payment days, or during the quarter. Whilst we have not agreed to waive any rent due by our tenants, this pandemic will influence our ability to generate cash in the short-term.

The Board are paying close attention to the evolving situation and to mitigating the risks for our business and all our stakeholders.

## Going concern

At 31 December 2019, the group had fixed-term non-amortising borrowing of £26,200,000 that expires in the period 2020-2029. Of these borrowings one loan of £2,500,000 is due for repayment on 3 July 2020 and a second loan of £1,500,000 is due for repayment on 23 November 2020. The group had, at 31 December 2019, an undrawn overdraft facility of £1,000,000 and additional headroom available of £7,800,000. It had a relatively modest gearing level of 41%. All medium-term bank borrowings are on fixed interest rate term loans. Any overdraft interest is at a margin to bank base rate. The usual facility renewal date was 30 June. As a result of the current coronavirus pandemic the group has asked its bankers to carry out this renewal early and provide a clear indication of the terms upon which they would re-finance the 2 term loans that expire in 2020. The bank has provided terms upon which they would re-finance these loans and the board has considered these with its legal advisers and concluded that they can complete all the necessary requirements prior to the first repayment which is due on 3 July 2020. The agreed headroom for the forthcoming year is £2,800,000.

The group has a secure property income stream from 30 occupiers with no undue reliance on any one tenant. The current coronavirus pandemic has, however, affected Q2 rent collections with 39% of those due by 1 April remaining outstanding at 30 April 2020. The impact on the remainder of Q2 collections and on the second half of the year is not yet certain. There remain uncertainties regarding the extent and duration of lockdown and social distancing measures which impact some of our tenants' ability to carry on their normal business and generate cash to pay their rent.

The group's most significant cash outflows are its property income distribution (PID) and bank interest payments, these made up 59% and 18% of the 2019 cash outflows respectively. The directors are aware of the obligations under the REIT regime regarding the PID requirement and will endeavour to meet this as planned during 2020. This requirement is, for Highcroft, measured on a calendar year basis. The group has had a discussion with HMRC and understands that if the effect of coronavirus is so severe that the PID requirement is not likely to be met in 2020 the company can agree with HMRC that the breach is not a serious breach of the legislation and can also agree an extension of the period of time available to pay of up to 6 months.

The group monitors its cashflows on a regular basis and in light of the fall in rental income receipts has taken advantage of the government support available to defer payment of its VAT and PAYE/NIC payable for Q2 to a time when our tenants may be in a position to repay some of the arrears.

The directors have reviewed the projected cashflows of the group and its compliance with debt covenants. They have also overlaid the potential impact of the Covid-19 pandemic onto their regular forecasting. For the purpose of this assessment they have relied on the information available at present and assumed that the English lock-down, in its current form, will not continue beyond the end of May 2020. They have considered scenarios including:

- The pandemic continuing to affect rent collections for Q3 and Q4 thus affecting cash generation and debt covenant compliance
- Highcroft being unable to dispose of property during 2020 to generate funds
- The pandemic affecting property valuations and our compliance with related debt covenants
- Deferrals of VAT and PAYE/NIC that have been offered by HMRC being taken up
- PID distributions being payable over a longer than 12-month period

following the year end, currently being discussed with HMRC, being approved by 31 December 2020

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

Following the above review the directors have concluded that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, and that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. On the basis of this review, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

### Viability statement

In accordance with provision 31 of the Code, the directors have assessed the viability of the group over a longer period than the 12 months required by the 'going concern' provision. The board conducted this review for a period of five years to coincide with its detailed review of the group's financial budgets and forecasts. The period is consistent with the periods until the next lease event on many of our properties and expires

after the expiry of our first three term loans which represent 44% 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 and where the full effect of the Covid-19 pandemic are difficult to estimate.

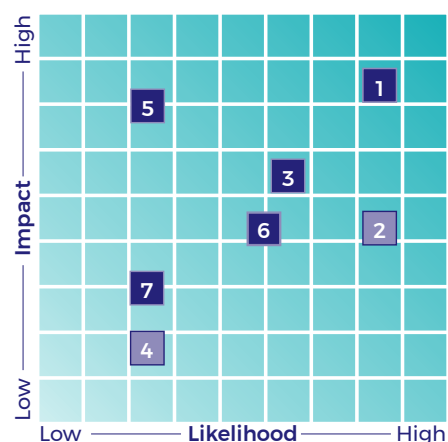
The board considered the group's cashflows including the required cashflows to meet the dividend requirement of the REIT regime, REIT compliance, income profile, loan to value and other key financial metrics. The board has also considered the level of property capital transactions that are likely to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

The board also conducted a sensitivity analysis taking into account the potential impacts of one, or more, of the group's principal risks, as set out on pages 28 and 29, actually occurring.

Having considered the forecast cashflows, covenant compliance, and the impact of the sensitivities, the directors confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2024.

### 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.



### Level of management focus key

- Low priority
- Medium priority
- High priority

### Principle risk key

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

### Strategic priorities key

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

We set clear strategic objectives against which we measure our performance:

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

Read more about **Our strategy** on pages 16 and 17

# Our risks continued

We have reviewed the risks in the year. The table below summarises the principal risks that face the business, their potential impact, the details of how we manage and mitigate the risk and a commentary on how we have performed.

Principal risk	How we manage/mitigate the risk
<b>External risks</b>	
<b>1 Economic outlook</b> The UK economic climate, any adverse consequences of the coronavirus, and future movements in interest rates present both risks and opportunities in the property and associated financial markets. This could impact the delivery of our planned revenue and capital strategy.	We regularly review the economic environment within which we operate to assess whether any changes to our management or mitigation of the risk need to be taken.
<b>2 Political and regulatory outlook</b> Significant political events and regulatory changes arising from the process of Brexit create uncertainty in investment and occupational decision-making processes, unknown impacts arising from new policy and regulation.	We are not able to influence political events and decisions. We do, however, review and monitor the likely scenarios and consider these in our planning process. In particular, we have reviewed the effect of climate change on our properties and future regulation that may be introduced in this area.
<b>3 Occupier demand and tenant default</b> Any weakening in the UK economy, reduced consumer confidence, business activity and investment could reduce income, rental growth and capital performance.	<p>We regularly review, with our advisers, key current and forecast market data including MCSI monthly statistics and relevant industry trends' analyses in order to assess whether any risk mitigating steps need to be taken. The group ensures that its investments are biased towards the south of England and Wales and in areas which are considered lower risk, and spreads its investment risk across a number of sectors (high street retail, office, retail warehouse, leisure and warehouse) adjusting the investment bias in line with the directors' interpretation of market trends.</p> <p>We assess, with the aid of our advisers, the financial status and creditworthiness of existing and potential tenants particularly when a new lease is entered into, or a new property acquired.</p> <p>The group spreads its exposure by individual property and covenant so that the risks associated with the default of an individual tenant are minimised. Rent collections are regularly reviewed by our property managers and monitored by the executive directors.</p>
<b>4 Commercial property investor demand</b> 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 the marketplace regularly and assess the market outlook to assess whether any changes to our management or mitigation of the risk need to be taken.
<b>5 Availability and cost of finance</b> Reduced availability of appropriately priced finance would affect our ability to refinance and/or increase cost.	The board aims to assume only a moderate level of gearing thus increasing the likelihood of being seen as an attractive banking proposition for lenders. Our preference is for fixed interest, non-amortising debt with a spread of maturity dates. We monitor our LTV and debt requirements and maintain good long-term relationships with our current and potential financing partners.
<b>Internal risks</b>	
<b>6 Business strategy</b> If the group has the wrong strategy for the current stage of the property cycle and the 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.
<b>7 Key personnel</b> Many critical business processes and decisions are performed by a small team and if they cannot be retained or replaced quickly there would be a negative impact on the group's performance.	Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. We outsource a number of key routine processes to minimise the risk of business interruption. Succession planning and the composition of the board are regularly reviewed by the nomination committee and the board review the key advisers at least annually. Future recruitment may require the use of a headhunter to source candidates with the appropriate skillset.

## Commentary

## Movement in risk exposure

During 2019 the UK economic position has weakened, the economy grew by only 1.1% and was only forecast to grow by 1.0% in 2020 prior to the Covid-19 pandemic. While inflation and interest rates remain low there is still a high degree of uncertainty.



The rapid spread of Covid-19 in England and throughout the world during March has had profound and potentially long-lasting impacts on the global economy and the health and prosperity of all our stakeholders. More detail can be found on page 26.

The most significant uncertainty, Brexit, is now following a clearer path after the December 2019 general election result. However, we are unable to predict the full impact that Brexit will have on our occupier and investor market and therefore upon our performance. A commentary on the environmental performance of our portfolio is on page 31.



Our property assets have performed well in the period.



During 2019 bad debts were nil and we had no voids. Our rent collections were good and arrears are low. The group has 30 commercial tenants and our five largest tenants by current passing rent provide 39% (2018 38%) of current income.

Our year-end property valuation was particularly affected by the negative sentiment in the high street retail and retail warehouse sectors.

Coronavirus has had a significant effect on many of our tenants in early 2020 and this will increase the likelihood of tenant default.

Our ability to react swiftly to opportunities meant that we were able to source new investment property in 2019. However, the market remains tough and the availability of suitable assets is low. The process of Brexit and the associated currency market movements have continued to encourage overseas investors into the market resulting in increased competition. Local authorities continue to have access to well-priced funding, although the cost of this has recently increased, and provide additional competition.



Our level of debt increased by £6.8m to £26.2m (2018 £19.4m). We have an increased headroom with one lender of £7.8m, together with an overdraft facility of £1.0m. A number of lenders have expressed interest in lending to the group. Net gearing is 41% (2018 23%). We have two loans totaling £4.0m reaching maturity in 2020.



During 2019 we were able to execute our growth strategy, remained well within our debt covenants, and produced a capital performance close to the market. The Covid-19 pandemic will affect our performance in 2020.



There were no board changes during the year. The Highcroft incentive plan was introduced to enhance the linkage between director remuneration and performance.



## Risk movement key



Increased risk



No change



Decreased risk



See our **Risk heat map** on page 27

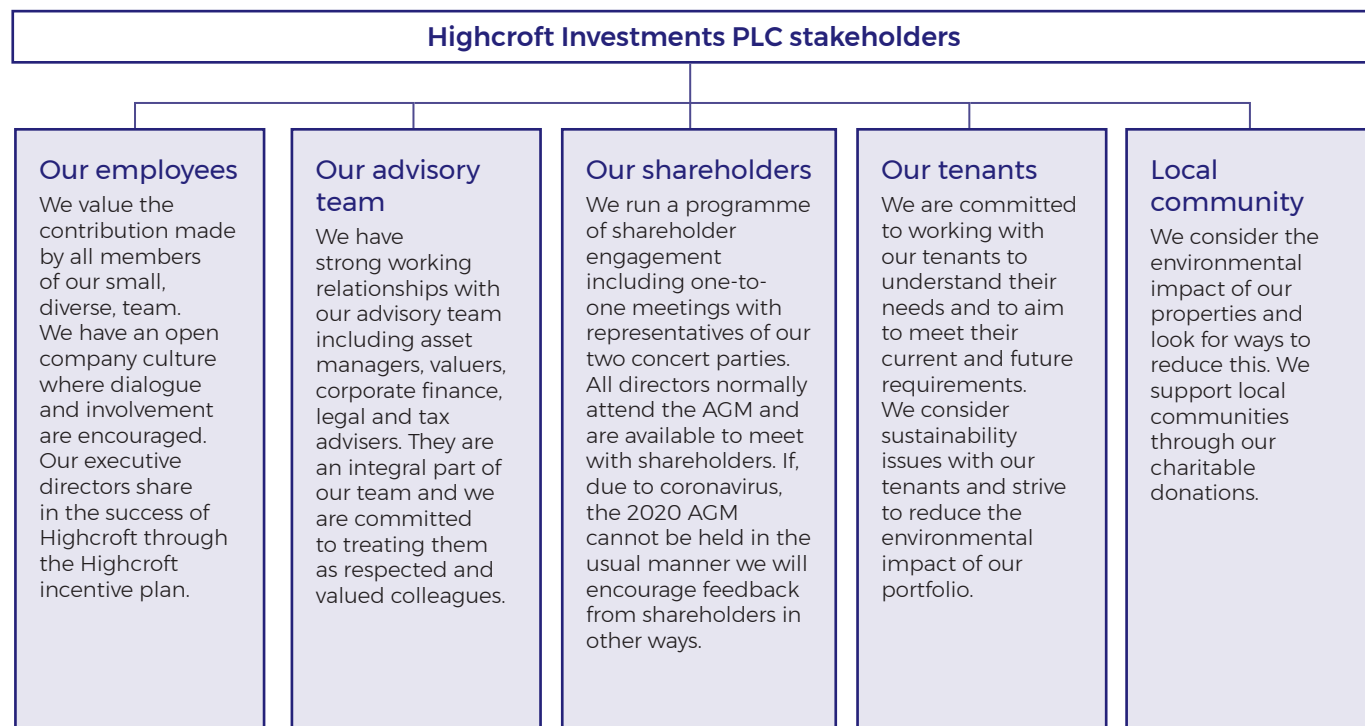


# Corporate social responsibility

## Our culture

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

## Our stakeholders



## 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.

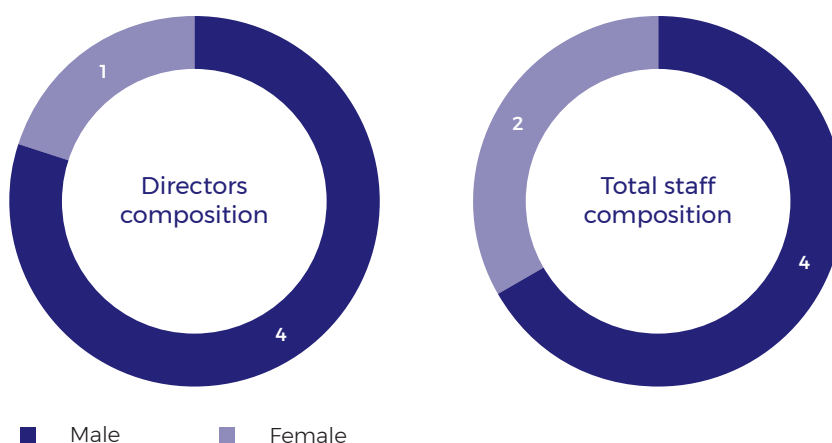
## Employee alignment

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 46.

## 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 36 and 37.

At 31 December 2019, and throughout the year, the composition of the group's employees was as follows:



## The environment

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

- we commission an independent environmental report for all acquisitions. This includes a review of the historic and current site usage and any contamination present;
- during refurbishment projects we ensure that materials are chosen that will not damage either health or the environment. We also ensure that any hazardous materials found to be present are removed safely and in accordance with legislation;
- All sites are visited at least annually by our asset managers and any environmental issues identified are reported to the chief executive immediately and recorded in the managers' quarterly management report 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 environmental management system that satisfies the requirements of BS EN ISO 14001: 2004 accreditation and as part of which they measure and set targets for improvement;
- We have EPCs on 19 of our 22 properties which show a weighted average of C which is above the national average;
- We have a paperless strategy with our shareholders which has reduced our paper mailings by 70%.

## 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 2019 donations were made to local and national charities totalling £10,000. These charities support the sick, the terminally ill and the disadvantaged. Examples of our support include:

- Funding a day of a national freephone helpline that gives hope to grieving children and their families.
- Contributions towards the funding of palliative care in a hospice, 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.

This strategic report on pages 12 to 31 was approved by the board and signed on its behalf



**Simon Gill**  
Chief executive  
30 April 2020

# Our governance

Chairman's introduction to corporate governance	34
Board of directors	36
Corporate governance	38
Report of the audit committee	40
Report of the nomination committee	43
Directors' remuneration report	44
Report of the directors	53
Statement of directors' responsibilities	55

## Case study

### Recent acquisition

Warehouse – Ranelagh Road, Ipswich		December 2019 valuation: <b>£4,650,000</b>
Purchased <b>May 2019</b>	<b>Occupied by:</b> <b>Dave Whelan Sports Ltd / Orwell Motorcycles Ltd</b>	
Current tenant <b>Dave Whelan Sports Ltd &amp; Orwell Motorcycles Ltd</b>	<b>Reason for acquisition</b> In May we acquired the freehold interest in a gym and motorcycle showroom in Ranelagh Road, Ipswich. The gym is let to Dave Whelan Sports Ltd for a term of 25 years from September 2010 at a rent of £246,197 pa, subject to fixed uplifts every fifth year of the term. The motorcycle showroom is let to Orwell Motorcycles Ltd for 25 years from September 2001 at a current rent of £101,360 pa; there is a fixed uplift rent review in 2021.	<b>How this links to strategy</b> Our strategy is to produce secure, long-term returns to our shareholders. This acquisition provides an attractive net return of 7.0% with in excess of 16 years income stream with guaranteed uplifts throughout the term. This should see the current yield of 7.0% rise to approximately 8.0% in 2020, 9.0% in 2025 and 10.0% in 2030.
Rental income <b>£347,557 pa</b>	The rationale for the acquisition was the long unexpired term (16+ years) on the main lease plus the guaranteed fixed uplifts on both leases. The rents of £8.13 and £7.63 per sq ft are modest when compared to retail warehouse rents in the immediate vicinity where occupiers include McDonalds, Wickes, Matalan and Sainsbury's.	The property was acquired off market showing our ability to find opportunities and act decisively.
Cost <b>£4,947,095</b> (£4,650,000 net of costs)	The acquisition produced a net yield of 7.0%	
Net initial yield <b>7.0%</b>		









# Chairman's introduction to corporate governance



**“ Good corporate governance is one of our core values and we strive to follow all appropriate guidance.”**

**Charles Butler**  
Chairman

## Dear shareholder

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

## Compliance with the UK Corporate Governance Code

The board recognises the importance of staying up to date with the ever-evolving corporate governance framework that we operate within, and in adopting the spirit of all the recommendations.

The 2018 UK Corporate Governance Code (Code) was released in July 2018 and applies to accounting periods commencing on or after 1 January 2019. Copies of the Code are available at [www.frc.org.uk](http://www.frc.org.uk). The board decided to adopt this Code early in 2018. The Code contains an updated set of principles that emphasise the value of good corporate governance to long-term sustainable success. It is intended that by applying the spirit of the principles, following the more detailed provisions and using the associated guidance, Highcroft can demonstrate through its reporting how the governance of the company

contributes to its long-term sustainable success and achieves its wider objectives. Highcroft is compliant with the Code other than in the areas listed overleaf and we set out our explanations for the non-compliances and our proposed path to compliance, if appropriate. The board will continue to review compliance with the Code, and with evolving best practice at least annually. During 2019 we have addressed some of our previous non-compliances with the introduction of the Highcroft incentive plan.

The remaining non-compliances relate to the size of the board and the employee base. The board has concluded that compliance would outweigh any potential benefits given the size and lack of complexity of the group.

Our strategy is set out on pages 16 to 17. All the board support this strategy and ensure that any matters that it approves are in line with this strategy.

We recognise the importance of shareholder communication and its place within a sound governance framework. During the year we have had regular contact with our key shareholders. The Kingerlee Concert Party falls within the definition of a controlling shareholder as it owns in excess of 30% of the share capital of the company and there is a Controlling Shareholder Agreement in place as required by the Listing Rules.

We would usually look forward to welcoming many of our shareholders to our 2020 AGM, however, due to current social distancing requirements we are likely to be required to hold a closed meeting. All shareholders are strongly encouraged to appoint the chairman of the AGM as their proxy. This means that the chairman of the AGM will be able to vote on their behalf, and in accordance with their instructions at the AGM.

This governance report on pages 34 to 55 sets out in more detail our compliance with the Code during the year and explains governance structure. All members of the board support the principles of good corporate governance and believe that we complied with the principles and provisions of the Code as was appropriate throughout the year and have explained any non-compliances and our explanations for these.

**Charles Butler**  
Chairman



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

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

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.	Recruit at least one more independent non-executive director.	Compliance would outweigh any potential benefits given the small size and lack of complexity of the group.
32	Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	Recruit at least one more independent non-executive director who has the necessary experience to assume the role of chair of the remuneration committee.	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.
41	There should be engagement with workforce by remuneration committee.	–	As there is only one employee other than the board it is not believed that such engagement and disclosure thereof would add value to shareholders.

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

## Board of directors



**Charles Butler**  
Non-executive chairman

### Appointment to the board

Charles joined the group as non-executive chairman 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,
- non-executive director of Atlantic Leaf Properties Limited a REIT registered in Jersey and
- executive director of Belerion Capital Group Limited, an FCA regulated firm advising high net worth individuals and family offices.

### Previous experience/brings to the board

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



**Simon Costa**  
Non-executive director and senior independent director

### Appointment to the board

Simon joined the board as senior independent director in May 2015.

### Committee membership

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

### Other appointments

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

### Previous experience/brings to the board

Simon was formerly the Senior Bursar of a college of the University of Oxford. He was responsible for overseeing the management of the endowment, and the finance and estates functions, and he served on all the college's core committees.

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



**Simon Gill**  
Chief executive

### Appointment to the board

Simon joined the group as property director in April 2013 and assumed the role of chief executive in August 2013.

### Committee membership

Simon chairs the executive committee.

### Other appointments

Simon runs his own property investment and development business and is a director of Waingate Management Services Limited and Solar Estates Limited.

### Previous experience/brings to the board

Simon is a chartered surveyor who started his property career in one of the major London practices, subsequently becoming a partner in Allsop & Co, before setting up his own advisory practice in 1988. Later he took on the role of principal by setting up various joint ventures and becoming an asset manager to one of Close Brothers' private equity funds. Simon's long-term involvement and experience in the property market in his various positions mean that opportunities for the board are assessed on a quick and efficient basis so that the correct decisions are reached at an early stage.



**David Kingerlee**  
Executive director



**Roberta Miles**  
Finance director and  
company secretary

#### Appointment to the board

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

#### Committee membership

Executive committee.

#### Other appointments

David is an executive director of each of the Kingerlee group of companies which trade in the construction and property development sectors. He is chairman of Kingerlee Limited and Kingerlee Holdings Limited.

#### Previous experience/brings to the board

David's long-term involvement and knowledge of the company provides a solid bedrock to the management of the business. His technical skills and attention to detail are invaluable in the day-to-day running of the group and our internal IT systems. His other business activities provide the directors with practical solutions and opinion to any property issues.

#### Appointment to the board

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

#### Committee membership

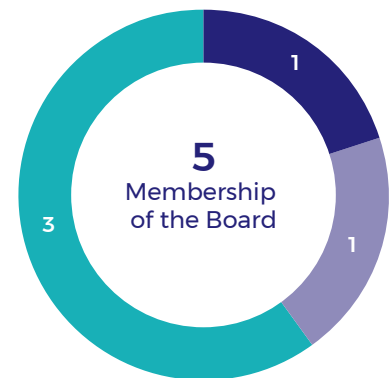
Executive committee.

#### Other appointments

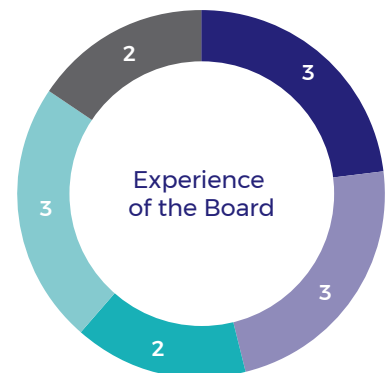
Roberta acts as company secretary or chief financial officer for a number of companies. She is currently a director of MCD Ventures Limited.

#### Previous experience/brings to the board

Roberta qualified as a chartered accountant in 1988 and after leaving the profession in 1996 has maintained a portfolio of part-time, executive, board-level roles in a variety of businesses at various stages of their life cycle. Her acute attention to detail, financial acumen and business expertise are a valuable asset to the board together with her project management capabilities. The board benefits greatly from the experience of her varied executive roles.



- Non-executive chairman
- Non-executive directors
- Executive directors



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

# Corporate governance

## Governance structure

### The Board

The board is responsible for leading and controlling the group's activities and, in particular:

- approving purpose, objectives, strategy and policies
- business planning
- review of performance
- risk assessment
- dividends
- appointment of board members and key advisers

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



More detail can be found below and on pages 36 to 37

### Chairman

The chairman is responsible for the leadership of the board and for ensuring its effectiveness. His role is non-executive. He sets the agenda for meetings and ensures that adequate, accurate, clear board information is circulated in a timely manner, that all matters are discussed properly and promotes a culture that encourages constructive open debate on all key issues. Charles Butler was considered to be independent upon appointment and is considered, by the board, to have remained independent throughout the year.

### Independent non-executive director

The non-executive director is deemed to be independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. They help facilitate the strategic decision-making process and the monitoring of the performance of the executive management in achieving the agreed strategy and objectives. Drawing on their extensive experience and knowledge, they act as both a sounding board and as objective, constructive challengers to the executive board. Simon Costa is our independent non-executive director.

### Senior independent director

The Code recommends that the board appoints one of the independent non-executive directors as senior independent director (SID). The SID is available to shareholders if they have concerns and also provides a sounding board for the chairman, reviews the performance of the chairman and serves as an intermediary for other directors when necessary. Simon Costa has held this role since his appointment in 2015.

## Board committees

### Executive committee

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

### Audit committee

This committee is comprised of the non-executive directors and chaired by Simon Costa. Meetings are attended, by invitation, by the auditor and the finance director and other executives may be invited to attend from time to time. The committee regularly meets the external auditor without management being present.

### Remuneration committee

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

### Nomination committee

This committee is comprised of the non-executive directors and chaired by Charles Butler.

The key roles and responsibilities of the audit, remuneration and nomination committees are set out in the reports on pages 40 to 52.

The terms of reference of these committees are available on the group's website [www.highcroftplc.com](http://www.highcroftplc.com).



## Board effectiveness

The board meets at least five times per year and has a schedule of matters specifically reserved for its decision including approval of strategy, all capital transactions, issue of shares, documents to shareholders including annual report and accounts, stock exchange announcements, dividends, board membership and remuneration and related party transactions. It also approves the terms of reference of all 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 unforeseen 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	5/5
Simon Costa	5/5
Simon Gill	5/5
David Kingerlee	5/5
Roberta Miles	5/5

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

Formal procedures appropriate to the size of the business are in use for performance evaluation of the board and its committees. They include objective-setting and review with the use of an external facilitator on a periodic basis. An external facilitator has not been used in 2019. In 2019 the board conducted a self-performance evaluation by way of a questionnaire designed to assess the strength of the board and its committees and also to identify areas for improvement. This process was led by the chairman and the results were discussed by the board. The board considered itself to be generally effective in all the key areas identified in the questionnaire. These areas included; contribution to results and achievement of strategic objectives, management controls and risk, operating styles and methods and shareholder relationships.

## Relations with shareholders

The board values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The chairman and other directors are available to meet shareholders if required. The AGM provides a forum, both formal and informal, for shareholders to meet and discuss relevant matters with all the directors. Documents are sent to shareholders at least 23 clear days before the meeting. Separate resolutions are proposed on each substantial issue so that they can be given proper consideration, and there is a resolution to receive and consider the annual report and financial statements and the directors' remuneration report. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution. Full details of the AGM voting are included on the company's website after the meeting. The company has no institutional shareholders but has continued a programme of meetings with key shareholders, subject to regulatory constraints, and the board is provided with feedback from these meetings.

The company has a controlling shareholder, and this is explained fully on page 54.

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](http://www.highcroftplc.com).

## Directors powers at the year end

At the 2019 AGM, the directors were given powers, which still existed at 31 December 2019,

- to allot new shares, or to grant rights to subscribe for or to 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.

# Report 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.”**

**Simon Costa**  
Chairman of the audit committee

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

## Composition of the committee and attendance at meetings

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

Director	Committee position	Attendance
Simon Costa	Chairman	3/3
Charles Butler	Member	3/3

The board is satisfied that they both have sufficient financial experience, business acumen and real estate sector experience to carry out their duties effectively. The committee meets regularly during the year, in line with the financial reporting timetable and in 2019 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.

The terms of reference were reviewed during the year and are available on the group's website at [www.highcroftplc.com](http://www.highcroftplc.com).

## 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 2019 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
<b>Valuation of property portfolio</b>	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 reports for lenders was £22,000 (2018 £17,000 and £7,000). The audit committee analysed the reports, reviewed the valuation outcomes and challenged assumptions where it believed appropriate. It also noted that the fee arrangement with the valuer was on a fixed-fee basis in line with best practice.	The committee was satisfied with the valuation process, the independence and effectiveness of the group's external valuer and the valuation disclosures included in the annual report.

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
<b>Revenue recognition</b>	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 and the internal reconciliations performed and reviewed internally.	The committee concluded that revenue recognition policies and controls were appropriate.
<b>REIT status</b>	The group loses its REIT status.	The committee consider the controls in place to ensure compliance with REIT tests. In particular, it reviews the compliance with the distribution requirement and the impact of forecasted results and trends on this criterion.	The committee concluded that the group's REIT status had been maintained throughout the year.
<b>Going concern basis of preparation</b>	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. 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 pages 26 and 27.
<b>Viability statement</b>	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, and whether they were the most appropriate.	The committee concluded that the statement had been drawn up on a reasonable basis and agreed with its assessment. The viability statement together with further details on the assessment undertaken is on page 27.

It also considers the results of the auditor's work, the interim and annual reports prior to their publication, the application of the company's accounting policies and the detail of any changes to the financial reporting requirements. The committee also considered the annual report and accounts, as a whole, on behalf of the board and made a recommendation to the board that it resolve that they were fair, balanced and understandable and provided the information necessary for stakeholders to assess the group's position, performance, business model and strategy. The committee ensures that the board presents a balanced and understandable assessment of the company's position and prospects in all interim and other price-sensitive public reports to regulators. The responsibilities of the directors regarding the financial statements are described on page 55, and that of the auditor on page 61.

## 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 (Mazars) were appointed as auditors to the group in 2017, following a formal competitive tender, and carry out no other services for the group other than a review of the interim statement and the new incentive plan for which the fee is £2,100. The audit fee is £33,000. The group's audit partner is Stephen Eames who has been in role since Mazars were appointed. The committee will ensure that rotation of the audit partner takes place in line with legislation.

In order to ensure that the external audit is as effective as possible the auditors must identify the appropriate risks as part of their planning process. For this financial year Mazars LLP submitted a detailed audit plan at the planning audit committee meeting which outlined key risks, including the valuation of investment property, risk of revenue misstatement due to the inclusion of fraudulent transactions and areas of accounting capable of manipulation. The committee is satisfied that the risks identified by the auditors are consistent with those identified internally.

At each audit committee meeting the committee reserves time for a meeting without executive management being present. We discuss matters including the quality of the information provided to the auditor by the executives, confirmation that the auditor has not been restricted in 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 2020 AGM.

# Report of the audit committee continued

## Risk management and internal controls

The board is responsible for an ongoing process to identify, evaluate and manage the risks facing the business, establishing and maintaining a sound system of internal control and for reviewing its effectiveness. The committee considered the group's risk appetite and concluded that it remains set at an appropriate level in line with the group's strategy. The audit committee is responsible for overseeing the effectiveness of the risk management and internal control systems. The system of internal control is designed to meet the 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; annual review of compliance with the Code.

More detail regarding our management of risk within our strategic framework is set out on pages 26 to 29.

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

## Internal audit

The board has considered the need for an internal audit function and has decided that the size and complexity of the group does not justify it at present. The board reviews this position annually.

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



**Simon Costa**  
Chairman of the audit committee

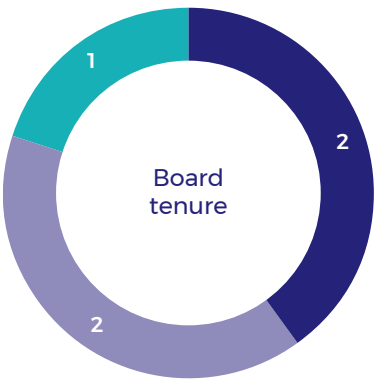


# Report of the nomination committee

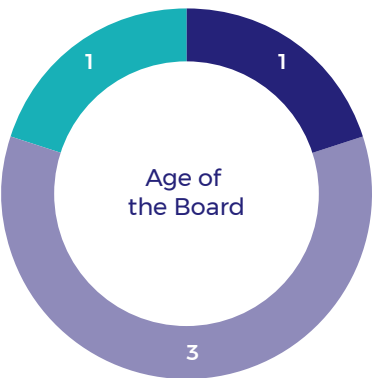


**“ The role of the committee is to consider the size, structure and composition of the board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties effectively.”**

**Charles Butler**  
Chairman of the board and of the nomination committee



- 2-5 years
- 5-10 years
- >10 years



- <50 years
- 51-60 years
- >60 years

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. The key objective of the committee is to ensure that the board comprises individuals with the requisite skills, knowledge and experience to ensure that it is effective in discharging its responsibilities. It is responsible for recommending board and board committee membership, changes to the board, for succession planning and for identifying suitable candidates for board vacancies to be nominated for board approval.

### Activities of the committee

#### Succession planning

There have been no changes to the composition of the board during the year. The committee recognises that succession planning is a key part of its remit. It recognises the importance of creating succession plans for the board so that it can fulfil the group’s long-term strategy.

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

#### Tenure

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

#### Diversity

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

*Charles Butler*

**Charles Butler**  
Chairman of the nomination committee

# Directors' remuneration report



**“The committee has, with the implementation of the Highcroft incentive plan, improved the alignment of interests between the executive directors and shareholders.”**

**Simon Costa**  
Chairman of the remuneration committee

## Annual Statement

### Introduction

I am pleased to introduce the remuneration report for the year ended 31 December 2019. This report comprises 3 sections:

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

During the year, further to the review of remuneration policy that had been carried out in 2018, the committee took advice from PricewaterhouseCoopers LLP (PWC) on a new remuneration policy and the implementation of an incentive plan. It consulted with major shareholders, and resolutions to approve the policy, the incentive plan and for shares to be issued under that plan were put to the 2019 AGM where they were passed unanimously. This report describes the first year of the application of the new remuneration policy and the committee's intentions for 2020.

### Membership of the committee

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

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

The board considered our independence during the year and concluded that we were both independent. Neither of the committee members had any potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

### 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 feedback on the form and content of this report.

### Remuneration strategy

Following the approval of the 2019 remuneration policy by the shareholders at the 2019 AGM it is not proposed that any significant changes are made in 2020. Our focus for the coming year will be to review the remuneration policy to ensure that it is effective in supporting our strategy.

### Major decisions made during the year

During the year the remuneration committee met to:

- retain an independent adviser to provide an insight into market practice, a benchmarking exercise, and to assist with development of the 2019 remuneration policy and the new incentive plan
- finalise the new incentive plan which adds 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 2019 and
- review the level of directors' fees for 2020. The directors' salaries were informally benchmarked against the external market and increases for all directors were proposed and confirmed after the year end.

## Advisers

During the year, PWC was appointed to provide independent advice in relation to market data, the design of, and accounting treatment of, the Highcroft incentive plan and certain matters in the remuneration report. Total fees were £24,000 (calculated on a pre-agreed basis). PWC carry out no other services for the group and the committee was satisfied that their advice would be objective and independent and agreed the level of fees which were all to be charged in 2019.

## Summary of directors' remuneration policy

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

This section of the report summarises the group's remuneration policy, which was approved by shareholders at the 2019 AGM. An ordinary resolution to approve this, or any updated policy will be put to shareholders at least every three years. The policy is available on the group's website [www.highcroftplc.com](http://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. They should also 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
<b>Executive Directors</b>					
Fixed					
<b>Base salary</b>	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
<b>Pension</b>	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
<b>Benefits</b>	Provide a competitive level of benefits.	To assist with recruitment and retention.	There is no intention to introduce direct benefit provision for the executive directors at this time. However, the remuneration committee recognises the need to maintain suitable flexibility to ensure it is able to attract and retain directors. Accordingly, the remuneration committee expects to be able to pay a cash allowance in lieu of benefits such as private medical insurance and death in service life assurance as appropriate.	The maximum will be set at the cost of providing the benefits described.	N/A

# Directors' remuneration report continued

Element	Purpose	Link to strategy	Operation	Maximum	Performance Target
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.
			<p>For executive directors other than David Kingerlee:</p> <p>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.</p> <p>Any balance will be paid in the form of deferred shares which vest 50% after three years and 50% after four years subject to the executive director's continued employment at the date of vesting.</p> <p>Malus will apply for the period from grant to vesting with clawback applying for the two-year period post vesting.</p>	Up to 200% of base salary.	<p>75% of the award is payable on the achievement of financial targets, with the balance being payable on the achievement of strategic targets.</p> <p>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.</p>
			For David Kingerlee:	Up to 100% of base salary.	<p>The remuneration committee retains discretion in exceptional circumstances to change performance metrics and targets and the weightings attached to metrics part-way through a performance year if there is a significant and material event which causes the remuneration committee to believe the original metrics, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the remuneration committee believe that the formulaic outcome is not a fair and accurate reflection of business performance.</p>
Shareholding requirement	To support long-term commitment to the company and the alignment of executive director interests with those of shareholders.	To align the executive director interests with those of shareholders.	The remuneration committee has adopted formal shareholding guidelines that will encourage the executive directors to build up, over a five-year period, and then subsequently hold a shareholding equivalent to a percentage of base salary. This requirement will continue until the audited accounts for the year of cessation are finalised and the sale of any shares will then be subject to orderly market provisions.	100% of base salary.	None.
Chairman and non-executive director					
Fees	Competitive remuneration, benchmarked to the market, reflecting role, responsibilities, skills and experience.	To assist with recruitment and retention.	Fees are reviewed annually taking into account: responsibilities, time commitment and benchmark data for organisations of a similar size and complexity. Fees are paid monthly via the payroll and relevant expenses incurred are reimbursed.	Not set.	N/A



## Recruitment policy

The remuneration committee's approach to recruitment remuneration is to apply the same structure as described in the above policy table. On appointment, base salary levels will be set taking into account a range of factors including expected time commitment, market levels, experience, internal relativities and affordability. The maximum annual opportunity under the Highcroft incentive plan will be 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 buy-outs as a matter of course. However, should the remuneration committee determine that the individual circumstances of recruitment justified the provision of a buy-out, 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 buy-out 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 while 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 2020.

### Simon Gill

#### Chief executive

Maximum	34%	66%	£379,000
On-target	45%	55%	£285,000
Minimum	100%		£129,000

### Roberta Miles

#### Finance director

Maximum	34%	66%	£333,000
On-target	45%	55%	£251,000
Minimum	100%		£113,000

### David Kingerlee

#### Executive director

Maximum	51%	49%	£77,000
On-target	62%	38%	£63,000
Minimum	100%		£39,000

■ Salary, Benefits and Pension

■ Highcroft incentive plan

#### 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.

# Directors' remuneration report continued

## Consideration of employment conditions elsewhere in the company

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

## Consideration of shareholder views

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

## Audit

The law requires the group's auditor, Mazars LLP, to report on whether the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the independent auditor's report on pages 58 to 61.

## Directors' contracts

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

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

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

## Annual report on remuneration for the year

### Relative importance of spend on pay

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

	2019 £'000	2018 £'000	2017 £'000
Directors' remuneration	534	483	440
Increase in directors' remuneration	10.4%	9.9%	8.9%
Distributions paid to shareholders	2,829	2,519	2,183
Directors' remuneration as a % of distributions paid to shareholders	18.9%	19.2%	20.2%
Cash element of directors' incentive award as a % of distributions paid to shareholders	6.7%	7.7%	8.2%

## Directors remuneration 2019 (audited)

	2019					2018			
	Base salary	Pension	Incentive plan		Total	Base salary	Pension	Discretionary bonus	Total
	£	£	Cash award	Share award*	£	£	£	£	£
Charles Butler	40,000	-	-	-	40,000	30,000	-	-	30,000
Simon Costa	31,500	-	-	-	31,500	25,000	-	-	25,000
Simon Gill	113,500	-	90,800	12,801	217,101	108,000	-	101,000	209,000
David Kingerlee	36,000	672	22,950	-	59,622	35,000	-	34,500	69,500
Roberta Miles	95,500	2,865	76,400	10,771	185,536	90,000	1,800	58,000	149,800
	316,500	3,537	190,150	23,572	533,759	288,000	1,800	193,500	483,300

\* element relating to 2019

One of the three eligible directors opted out of receiving pension contributions in 2019.

## Highcroft incentive plan 2019

The maximum opportunity under the new Highcroft incentive plan for 2019 was 200% of salary for Simon Gill and Roberta Miles and 100% of salary for David Kingerlee.

The 2019 award was based on four performance measures and their relative weighting, thresholds and outcomes together with the outcome for the individual directors is tabulated below:

Performance measure	Weighting	Threshold	% of maximum payout	Performance agreed	Agreed % outcome	Actual % of maximum awarded	Award as % of base salary				
							Simon Gill		Roberta Miles		David Kingerlee
							Cash	Deferred shares	Cash	Deferred shares	Cash
NAV per share growth	30%	min 1% max 3%	25% 100%	-3%	0%	0%					
EPS growth <sup>1</sup>	30%	min 3% max 6%	25% 100%	15%	100%	30%					
Gross rent growth	15%	min 3% max 7%	25% 100%	16%	100%	15%					
Strategic personal objectives	25%				75%*	18.75%					
	100%					63.75%	80%	47.5%	80%	47.5%	63.75%

1. Adjusted to remove all revaluation movements, gains/losses on disposal and share-based element of incentive plan payment

\* 75% achievement agreed for all directors

The cost of the deferred share element of the award is, for accounting purposes, spread across the total service and vesting period of the deferred shares which, for 2019, is 3.77 years for half of the award and 4.77 years for the remaining half of the award.

The deferred share element of the award is summarised in the table below:

	Base salary £	Award as % of base salary	Deferred share element £	Expensed in				
				2019 £	2020 £	2021 £	2022 £	2023 £
Simon Gill	113,500	47.5%	53,913	12,801	12,801	12,801	11,157	4,353
Roberta Miles	95,500	47.5%	45,363	10,771	10,771	10,771	9,387	3,663
			99,276	23,572	23,572	23,572	20,544	8,016

# Directors' remuneration report continued

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

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

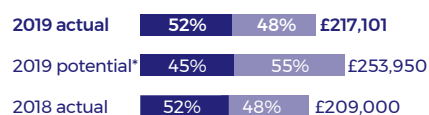
	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
<b>Base salary</b>										
Simon Gill	113	108	98	95	70	51	21	-	-	-
Jonathan Kingerlee (deceased)	-	-	-	-	-	-	20	35	35	34
	113	108	98	95	70	51	41	35	35	34
Percentage change in this element	5%	10%	3%	36%	37%	24%	17%	0%	3%	0%
<b>Discretionary bonus/ Incentive plan</b>										
Simon Gill	104	101	94	87	82	60	-	-	-	-
Jonathan Kingerlee (deceased)	-	-	-	-	-	-	-	-	-	-
	104	101	94	87	82	60	0	0	0	0
Percentage change in this element	3%	7%	8%	6%	37%	-	-	-	-	-
<b>Total</b>										
Simon Gill	217	209	192	182	152	111	21	-	-	-
Jonathan Kingerlee (deceased)	-	-	-	-	-	-	20	35	35	34
	217	209	192	182	152	111	41	35	35	34
Percentage change in total remuneration of CEO	4%	9%	5%	20%	37%	171%	17%	0%	3%	0%

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

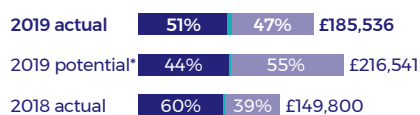
## Executive directors' remuneration 2019

The charts below show the 2019 actual remuneration against the potential opportunity for the year and the 2018 remuneration for each executive director. Full disclosure of the single total figure for remuneration is set out above.

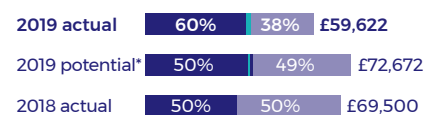
### Simon Gill Chief executive



### Roberta Miles Finance director



### David Kingerlee Executive director



■ Base Salary      ■ Pension      ■ Incentive plan/discretionary bonus

\* 2019 potential assumes that maximum incentive plan payment was made and spread evenly over the service and vesting period

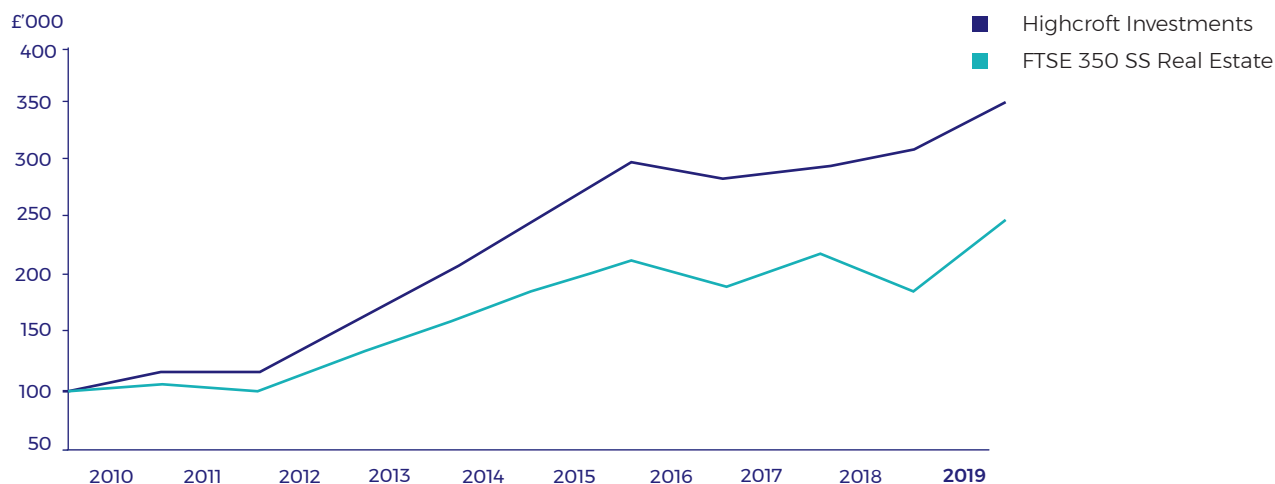


## Company performance

The board is responsible for the group's performance.

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

### Total Shareholder Return performance graph



Source: Thomson Reuters Datastream

## Statement of implementation of remuneration policy in the next financial year

The board does not intend to make any significant changes to remuneration policy during 2020.

### Salaries 2020

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

<b>Simon Gill</b>	£125,000	<b>Charles Butler</b>	£49,000
<b>Roberta Miles</b>	£110,000	<b>Simon Costa</b>	£37,000
<b>David Kingerlee</b>	£38,000		

### Highcroft incentive plan 2020

The maximum opportunity under the Highcroft incentive plan for 2020 will continue to be 200% of base salary for Simon Gill and Roberta Miles and 100% of base salary for David Kingerlee. The awards will be based on 4 performance measures:

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

Performance targets for the Incentive plan for 2020 are not disclosed here on the grounds of commercial sensitivity, will be disclosed in the 2020 directors' remuneration report.

# Directors' remuneration report continued

## 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 2019 were as follows:

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

Between 1 January 2020 and 30 April 2020, the interest of David Kingerlee reduced by 37,470 to 1,498,333 as a result of a change in trust arrangements.

## Statement of shareholder voting

At the AGM in 2019 the resolution to approve the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	1,993,645	100%
Votes cast against	-	-
Total votes cast	1,993,645	100%
Votes withheld	-	-

Approved by the board of directors and signed by



**Simon Costa**

Chairman of the remuneration committee

30 April 2020

# Report of the directors

The corporate governance report on pages 34 to 57 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 2019.

The principal activity of the group continues to be property investment. The group also invested in listed equity investments but these were disposed of in February 2019.

## Directors

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

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

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 52.

In accordance with the Code, all directors will retire and offer themselves for re-election at the forthcoming 2020 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, market risk and liquidity risk is in note 18 to the consolidated financial statements.

## Structure of share capital and rights and obligations attaching to shares

The company's allotted and issued share capital as at 31 December 2019 was £1,291,810 (2018 £1,291,810) divided into 5,167,240 (2018 5,167,240) ordinary shares of 25 pence each, each of which was called up and fully paid. There have been no changes to the share capital since the year end.

Subject to the Companies Act for the time being in force (the "Act") the company's articles of association confer on holders the following principal rights:

- **To receive a dividend**  
The profits of the company available for dividend, and resolved to be distributed, shall be applied in the payment of dividends to the members and to persons becoming entitled to shares by transmission, in accordance with their respective rights and priorities. The company in general meeting may declare dividends accordingly.

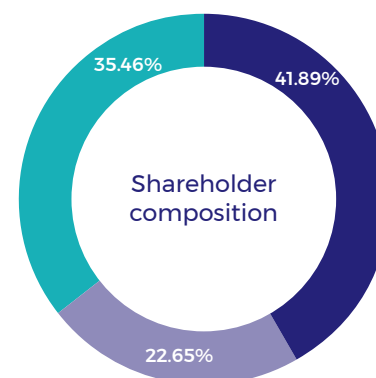
- **To a return of capital or assets, if available, on liquidation**  
Upon any winding up of the company, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the statutes, divide among the members in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members of different classes of members.
- **To receive notice of, attend and vote at an AGM**  
At each AGM upon a show of hands every member present in person or by proxy shall have one vote, and upon a poll every member present in person or by proxy shall have one vote for every share of which he or she is the holder.
- **To have, in the case of certificated shares, rights in respect of share certificates and share transfers**  
Every person whose name is entered as a member in the register as the holder of any certificated share shall be entitled without payment to one certificate for all the shares of each class held by him or, upon payment of such reasonable out-of-pocket expenses for every certificate after the first as the board shall from time to time determine, several certificates each for one or more of his shares. On any transfer of shares, the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

## Substantial shareholders

As at 31 December 2019 the following notifications of interests in 3% or more of the company's ordinary share capital in issue had been received:

	Beneficial	Number of shares
D G & M B Conn and associates	22.65%	1,170,405
Controlling shareholder – Kingerlee Concert Party comprising		
– the wholly owned subsidiaries of Kingerlee Holdings Limited:		
Kingerlee Limited	9.97%	515,000
Kingerlee Homes Limited	7.72%	399,093
T H Kingerlee & Sons Limited	9.58%	494,770
Total – Kingerlee Holdings Limited	27.27%	1,408,863
– other associates	14.62%	755,603
Total – Kingerlee Concert Party	41.89%	2,164,466

Since 31 December 2019 the company has been notified that the holding of the 'other associates' has reduced by 37,470 shares (0.73%).



- Kingerlee Concert Party
- Conn Concert Party
- Other shareholders

# Report of the directors continued

## Controlling shareholder

A controlling shareholder is defined by the FCA as “any person who exercises or controls, on their own or together with any other person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company”. The directors are aware that the shareholdings of Kingerlee Holdings Limited and its subsidiaries referred to in the above table together with their connected parties and associates form the Kingerlee Concert Party which, as at 30 April 2020, held 2,126,996 ordinary shares, representing 41.16% of the company's issued share capital. The Kingerlee Concert Party is therefore a controlling shareholder. The persons comprising the Kingerlee Concert Party were confirmed by the Takeover Panel in 1999. The company can confirm that, in accordance with these rules:

- it entered into a controlling shareholder agreement (CSA) with the Kingerlee Concert Party on 13 November 2014
- the company has complied with the independence provisions in the CSA from 1 January 2019 until 31 December 2019 (the period)
- so far as the company is aware, the independence provisions in the CSA have been complied with by the controlling shareholder and its associates in the period
- 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 £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 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. More information can be found on page 17.

## 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 69.

## Charitable donations

During the year, the board made charitable donations of £10,000. More detail can be found on page 31.

## Disclosure of information to the auditor

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

## Auditor

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

## Post balance sheet events

There were no post balance sheet events requiring disclosure.

This report was approved by the board



**Roberta Miles**  
Finance Director  
30 April 2020



# Statement of directors' responsibilities

in respect of the annual report, remuneration report and the financial statements

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

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

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

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

In so far as each of the directors is aware:

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

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

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

## Responsibility statement of directors in respect of the annual financial report

We confirm that to the best of our knowledge:

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

On behalf of the board



**Charles Butler**  
Chairman  
30 April 2020

# Financial report

Independent auditors' report	58
Consolidated statement of comprehensive income	62
Consolidated statement of financial position	63
Consolidated statement of changes in equity	64
Consolidated statement of cashflows	65
Notes to the consolidated financial statements	66
Company statement of financial position	76
Company statement of changes in equity	77
Notes to the company financial statement	78
Group five year summary (unaudited)	82
Directors and advisers	82

## Case study

Long-term hold

Office –  
Banbury Road, Oxford

December 2019 valuation:  
**£3,875,000**

Purchased

**March** 1989

Current tenant

**BBC**

Rental income

**£179,200** pa

Cost

**£1,527,882**

December 2019 valuation

**£3,875,000**

Current yield

**4.6%**

**Occupied by:  
BBC**

**Reason for continuing to  
hold this asset**

This is the longest held asset in our portfolio. It has been continuously let on a 50 year lease to the excellent covenant of the BBC since acquisition and continues to represent the longest unexpired lease term in our portfolio. The rent is subject to five yearly upwards only rent reviews.

**How this links to strategy**

Our strategy is to produce secure, long-term returns to our shareholders. While this asset produced the lowest income return in our portfolio in 2019 it also produced the third highest total return of 8.4%. This performance represents the benefit of holding a diversified portfolio that includes assets in different sectors with different risk profiles.









# 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 2019 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the notes to the consolidated financial statements, the company statement of financial position, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent company financial statements is United Kingdom Accounting Standards, including FRS102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulation.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, as applied to 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 principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 26 to 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 26 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 27 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

- the directors' explanation set out on page 27 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key Audit Matters

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

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

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

## Investment property valuation

The group has a significant portfolio of investment properties which is measured in accordance with IAS 40 'Investment property'. Investment properties make up 97% 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. As a result, the valuation of investment properties is considered to be a Key Audit Matter as it had the greatest effect on our overall audit strategy and allocation of resources.



Our audit work included but was not restricted to:

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

## Observations

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

## Impact of the outbreak of COVID-19 on the financial statements

Since the balance sheet date there has been a global pandemic from the outbreak of COVID-19. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK.

The directors' consideration of the impact on the financial statements are disclosed in strategic report on page 20, going concern assessment on page 26 and viability statement on page 27. Whilst the situation is still evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate.

As per Note 21 to the financial statements, the directors have also concluded that COVID-19 is a non-adjusting post balance sheet event.

## Our response

We assessed the directors' conclusion that the matter be treated as a non-adjusting post balance sheet event and that adopting the going concern basis for preparation of the financial statements is appropriate. We considered:

- The timing of the development of the outbreak across the world and in the UK; and
- How the financial statements and business operations of the group might be impacted by the disruption.

In forming our conclusions over going concern, we evaluated how the directors' going concern assessment considered the impacts arising from COVID-19 as follows:

- We reviewed the directors' going concern assessment including COVID-19 implications based on a 'most likely' (base case) scenario and a 'reverse stress tested scenario' as approved by the board of directors on 30 April 2020. We made enquiries of directors to understand the period of assessment considered by directors, the completeness of the adjustments taken into account and implication of those when assessing the 'most likely' scenario and the 'reverse stress

tested scenario' on the group's future financial performance;

- We evaluated the key assumptions in the 'base case' forecast and the 'reverse stress tested scenario' forecast and considered whether these appeared reasonable;
- We examined the minimum cash inflow and committed facility headroom under the 'base case' monthly cash flow forecasts as disclosed in the financial statements and evaluated whether the directors' conclusion that liquidity headroom remained in all events was reasonable; and
- We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, in particular disclosures within principal risks & uncertainties, post balance sheet events and going concern.

## Our observations

Based on the work performed, we are satisfied that the matter has been appropriately reflected in the financial statements.

Our conclusions on going concern is set out above.

## Our application of materiality

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

<b>Overall materiality</b>	£895,000
<b>How we determined it</b>	This has been calculated with reference to the group's total assets, of which it represents approximately 1%.
<b>Rationale for benchmark applied</b>	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.
<b>Performance materiality</b>	On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was £627,000 which is approximately 70% of overall group materiality.
<b>Reporting threshold</b>	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £27,000 as well as any misstatements below that amount that, in our opinion, warranted reporting for qualitative reasons.

## Independent auditor's report continued

### to the members of Highcroft Investments PLC

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

For each component in the scope of the group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £74,000 and £795,000. The parent company materiality was set at £548,000. For all components across the group performance materiality was set at 70%.

#### An overview of the scope of our audit, including extent to which the audit was considered capable of detecting irregularities, including fraud

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

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the group and the parent company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

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

- at planning stage, we gained an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which it operates and considered the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations;
- we discussed with the directors the policies and procedures in place regarding compliance with laws and regulations;

- we discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and
- during the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the group's and the parent company's regulatory and legal correspondence and review of minutes of directors' meetings in the year we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the REIT regime. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

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

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

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

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

Our group audit scope included an audit of the group and parent company financial statements of Highcroft Investments PLC. Based on our risk assessment, all entities within the group were subject to full scope audit and was performed by the group audit team.

At the parent level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

#### Other information

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable** set out on page 55 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting** set out on pages 40 to 42 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 34 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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.

### Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 55, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

### Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Audit Committee on 16 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ending 31 December 2017 to 31 December 2019.

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

Our audit opinion is consistent with the additional report to the Audit Committee.

### Use of the audit report

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

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

The Pinnacle  
160 Midsummer Boulevard  
Milton Keynes  
MK9 1FF

30 April 2020

# Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019			2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		5,840	-	5,840	5,043	-	5,043
Property operating expenses	8	(184)	-	(184)	(184)	-	(184)
<b>Net rental income</b>		<b>5,656</b>	<b>-</b>	<b>5,656</b>	<b>4,859</b>	<b>-</b>	<b>4,859</b>
<b>Net gains on investment property</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>967</b>	<b>-</b>	<b>967</b>
Valuation gains on investment property		-	739	739	-	2,600	2,600
Valuation losses on investment property		-	(3,627)	(3,627)	-	(2,116)	(2,116)
<b>Net valuation (losses)/gains on investment property</b>	8	<b>-</b>	<b>(2,888)</b>	<b>(2,888)</b>	<b>-</b>	<b>484</b>	<b>484</b>
Dividend revenue		3	-	3	54	-	54
Gains on equity investments	9	-	53	53	-	48	48
Losses on equity investments	9	-	-	-	-	(166)	(166)
<b>Net investment income</b>		<b>3</b>	<b>53</b>	<b>56</b>	<b>54</b>	<b>(118)</b>	<b>(64)</b>
Administration expenses	3	(826)	-	(826)	(736)	-	(736)
<b>Net operating profit before net finance expense</b>		<b>4,833</b>	<b>(2,835)</b>	<b>1,998</b>	<b>5,144</b>	<b>366</b>	<b>5,510</b>
Finance income		6	-	6	6	-	6
Finance expense		(856)	-	(856)	(705)	-	(705)
<b>Net finance expense</b>		<b>(850)</b>	<b>-</b>	<b>(850)</b>	<b>(699)</b>	<b>-</b>	<b>(699)</b>
<b>Profit before tax</b>		<b>3,983</b>	<b>(2,835)</b>	<b>1,148</b>	<b>4,445</b>	<b>366</b>	<b>4,811</b>
Income tax credit/(charge)	5	72	(66)	6	67	48	115
<b>Profit for the year after tax</b>		<b>4,055</b>	<b>(2,901)</b>	<b>1,154</b>	<b>4,512</b>	<b>414</b>	<b>4,926</b>
<b>Total profit and comprehensive income for the year attributable to the owners of the parent</b>		<b>4,055</b>	<b>(2,901)</b>	<b>1,154</b>	<b>4,512</b>	<b>414</b>	<b>4,926</b>
Basic and diluted earnings per share	7			<b>22.3p</b>			<b>95.3p</b>

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 2019

	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	8	86,710	77,700
Equity investments at fair value through profit or loss	9	–	679
<b>Total non-current assets</b>		<b>86,710</b>	<b>78,379</b>
<b>Current assets</b>			
Trade and other receivables	10	1,147	471
Cash and cash equivalents		1,559	5,202
<b>Total current assets</b>		<b>2,706</b>	<b>5,673</b>
<b>Total assets</b>		<b>89,416</b>	<b>84,052</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest bearing loan	12	4,000	–
Trade and other payables	11	2,495	2,235
<b>Total current liabilities</b>		<b>6,495</b>	<b>2,235</b>
<b>Non-current liabilities</b>			
Interest bearing loan	12	22,200	19,400
Deferred tax liabilities	13	–	33
<b>Total non-current liabilities</b>		<b>22,200</b>	<b>19,433</b>
<b>Total liabilities</b>		<b>28,695</b>	<b>21,668</b>
<b>Net assets</b>		<b>60,721</b>	<b>62,384</b>
<b>Equity</b>			
Issued share capital	14	1,292	1,292
Share-based payment reserve		12	–
Revaluation reserve – property		12,931	18,770
– other		–	574
Capital redemption reserve		95	95
Realised capital reserve		28,995	28,378
Retained earnings		17,396	13,275
<b>Total equity attributable to the owners of the parent</b>		<b>60,721</b>	<b>62,384</b>

These financial statements were approved by the board of directors on 30 April 2020.



**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

	Issued share capital £'000	Share- based payment reserve £'000	Revaluation reserves		Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
			Property £'000	Other £'000				
<b>2019</b>								
At 1 January 2019	1,292	-	18,770	574	95	28,378	13,275	62,384
Transactions with owners:								
Dividends	-	-	-	-	-	-	(2,829)	(2,829)
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation losses	-	-	(2,888)	-	-	-	2,888	-
Realised gains/(losses)	-	-	-	-	-	43	(43)	-
Movement in deferred tax on realisation of equities	-	-	-	29	-	(29)	-	-
Surplus attributable to assets sold in the year	-	-	-	(603)	-	603	-	-
Reassessment of carrying value of reserve accounts	-	-	(4,168)	-	-	-	4,168	-
Excess of cost over revalued amount taken to retained earnings	-	-	1,217	-	-	-	(1,217)	-
	-	-	(5,839)	(574)	-	617	5,796	-
Share award expensed	-	12	-	-	-	-	-	12
Total comprehensive income for the year	-	-	-	-	-	-	1,154	1,154
<b>At 31 December 2019</b>	<b>1,292</b>	<b>12</b>	<b>12,931</b>	<b>-</b>	<b>95</b>	<b>28,995</b>	<b>17,396</b>	<b>60,721</b>
	Issued share capital £'000		Revaluation reserves		Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
			Property £'000	Other £'000				
<b>2018</b>								
At 1 January 2018	1,292		18,015	538	95	26,611	13,426	59,977
Transactions with owners:								
Dividends	-	-	-	-	-	-	(2,519)	(2,519)
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation gains/(losses)	-		484	(121)	-	-	(363)	-
Tax on revaluation gains	-		-	48	-	-	(48)	-
Realised gains/(losses)	-		-	-	-	969	(969)	-
Movement in deferred tax on realisation of equities	-		-	1,161	-	(1,161)	-	-
Surplus attributable to assets sold in the year	-		(907)	(1,052)	-	1,959	-	-
Excess of cost over revalued amount taken to retained earnings	-		1,178	-	-	-	(1,178)	-
	-		755	36	-	1,767	(2,558)	-
Total comprehensive income for the year	-		-	-	-	-	4,926	4,926
At 31 December 2018	1,292		18,770	574	95	28,378	13,275	62,384

# Consolidated statement of cashflows

for the year ended 31 December 2019

	2019 £'000	2018 £'000
<b>Operating activities</b>		
Profit before tax on ordinary activities	1,148	4,811
Adjustments for:		
Net valuation losses/(gains) on investment property	2,888	(484)
Net gain on disposal of investment property	-	(967)
Net (gain)/loss on investments	(53)	118
Share-based payment expense	12	-
Finance income	(6)	(6)
Finance expense	856	705
<b>Operating cashflow before changes in working capital and provisions</b>	<b>4,845</b>	<b>4,177</b>
(Increase)/decrease in trade and other receivables	(667)	66
Increase in trade and other payables	325	89
<b>Cash generated from operations</b>	<b>4,503</b>	<b>4,332</b>
Finance income	6	6
Finance expense	(856)	(705)
Income taxes paid	(93)	(13)
<b>Net cashflows from operating activities</b>	<b>3,560</b>	<b>3,620</b>
<b>Investing activities</b>		
Purchase of non-current assets – investment property	(11,898)	(5,226)
Sale of non-current assets – investment property	-	6,090
– equity investments	724	1,333
<b>Net cashflows from investing activities</b>	<b>(11,174)</b>	<b>2,197</b>
<b>Financing activities</b>		
Dividends paid	(2,829)	(2,519)
New bank borrowings	6,800	-
<b>Net cashflows from financing activities</b>	<b>3,971</b>	<b>(2,519)</b>
Net (decrease)/increase in cash and cash equivalents	(3,643)	3,298
Cash and cash equivalents at 1 January	5,202	1,904
<b>Cash and cash equivalents at 31 December</b>	<b>1,559</b>	<b>5,202</b>

# Notes to the consolidated financial statements

for the year ended 31 December 2019

## 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 2019 comprise the company and its subsidiaries, together referred to as the group. The accounting policies remain unchanged.

### Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. In adopting the going concern basis the directors have, based on the information available at the date of this report, considered the potential financial impacts of Covid-19. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and the measurement of equity investments at fair value.

### Analysis of statement of comprehensive income

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

### Accounting estimates and judgements

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

### New accounting standards and interpretations

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

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

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

### Basis of consolidation

The group financial statements consolidate the financial statements of the company and its 100% subsidiaries: Rodenhurst Estates Limited, BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited which are all made up to 31 December 2019, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

### Rental revenue as a lessor

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

### Dividend revenue

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

### Finance costs

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



## 1 Significant accounting policies continued

### 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.

### Expenses

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

### Lease expense

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

### Realised gains and losses

Realised gains and losses are calculated as the difference between the proceeds, less expenses, and the value of the asset at the beginning of the financial year. The related revaluation gains or losses of previous years are transferred from revaluation reserve to realised capital reserve when the asset is disposed of.

### Income tax

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of equity investments, using tax rates enacted or 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.

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

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

### Equity investments

The directors have designated the group's qualifying financial assets at fair value through profit and loss on the basis that to do so is in accordance with its documented investment strategy. All the group's listed equity investments were disposed of in February 2019.

### Trade and other receivables

Trade and other receivables are recognised at fair value on initial recognition and subsequently at amortised cost. An impairment loss is recognised for the amount by which the receivable's carrying amount is believed to exceed the present value of the future cashflows. To estimate the recoverable amount, management considers the payment history of the tenant and takes into account the most recent credit rating of the tenant.

### Cash and cash equivalents

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

### Financial liabilities

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

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

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

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

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

# Notes to the consolidated financial statements continued

for the year ended 31 December 2019

## 1 Significant accounting policies continued

### Issued share capital

Ordinary shares are classified as equity because they do not contain an obligation to transfer cash or another financial asset. Dividends are recognised as a liability in the period in which they are payable.

### Share-based payment reserve

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

### Revaluation reserves

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

### Capital redemption reserve

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

### Realised capital reserve

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

### Retained earnings

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

### Segment reporting

The group has one main operating segment; commercial property, 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 officer. For management purposes, the group uses the same measurement policies as those used in its financial statements.

## 2 Segment reporting

The group is comprised of one main operating segment.

In 2019 no tenant represented more than 9.0% of gross rental income (2018 10.1%).

## 3 Administrative expenses

	2019 £'000	2018 £'000
Directors (note 4)	597	540
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's accounts	33	31
Fees payable to the company's auditor for other services	2	1
Other expenses	194	164
	<b>826</b>	<b>736</b>

## 4 Directors

	2019 £'000	2018 £'000
Remuneration in respect of directors was as follows:		
Remuneration	530	481
Pension costs	3	2
Social security costs	64	57
	<b>597</b>	<b>540</b>

The average number of employees was six (2018 six) all of whom, other than a part-time management accountant, were directors of the group. All directors are considered to be key managers of the company. More detailed information concerning directors' remuneration is shown in the directors' remuneration report.

## 5 Income tax (charge)/credit

	2019 £'000	2018 £'000
Current tax:		
On revenue profits	72	67
On capital profits	(99)	-
	(27)	67
Deferred tax (note 13)	33	48
Income tax credit	6	115

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 19%).

The differences are explained as follows:

	2019 £'000	2018 £'000
Profit before tax	1,148	4,811
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018 19%)	218	914
Effect of:		
Tax exempt revenues	(11)	13
Profit not taxable as a result of REIT status	(216)	(1,199)
Chargeable gains more than accounting profit	103	172
Use of management expenses	(67)	20
Change in deferred tax liability	(33)	(48)
Adjustment in respect of previous years	-	13
Income tax charge/(credit)	(6)	(115)

On 11 March 2020, it was announced that the UK corporation tax rate will remain at 19%. This has not yet been substantively enacted, and therefore deferred tax balances at the reporting date are measured at 17% (2018 19%), being the rate which is substantively enacted at the reporting date. The deferred tax balance at the reporting date is nil (note 13) due to the reversal of deferred tax resulting in from the disposal of all remaining listed equities during the year.

## 6 Dividends

In 2019 the following dividends have been paid by the company:

	2019 £'000	2018 £'000
2018 Final: 33.75p per ordinary share (2017 30.00p)	1,744	1,550
2019 Interim: 21.00p per ordinary share (2018 18.75p)	1,085	969
	2,829	2,519

On 30 April 2020 the directors declared a property income distribution of £1,395,000, 27.00p per share (2018 £1,744,000, 33.75p per share) payable on 19 June 2020 to shareholders registered at 15 May 2020.

# Notes to the consolidated financial statements continued

for the year ended 31 December 2019

## 7 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £1,154,000 (2018 £4,926,000) and on 5,167,240 shares (2018 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2019 and throughout the period since 1 January 2018. There are no dilutive instruments.

In order to draw attention to the profit which is not due to the impact of valuation gains and losses which are included in the statement of comprehensive income but not available for distribution under the company's articles of association, an adjusted earnings per share-based on the profit available for distribution of £4,055,000 (2018 £4,512,000) has been calculated.

	2019 £'000	2018 £'000
Earnings:		
Basic profit for the year	1,154	4,926
Adjustments for:		
Net valuation losses/(gains) on investment property	2,888	(484)
(Gains)/losses on investments	(53)	118
Income tax on profit	66	(48)
Adjusted earnings	4,055	4,512
Per share amount:		
Earnings per share (unadjusted)	22.3p	95.3p
Adjustments for:		
Net valuation losses/(gains) on investment property	55.9p	(9.4p)
(Gains)/losses on investments	(1.0p)	2.3p
Income tax on profits	1.3p	(0.9p)
Adjusted earnings per share	78.5p	87.3p

## 8 Investment property

	2019 £'000	2018 £'000
Total valuation at 1 January	77,700	77,113
Additions	11,898	5,226
Disposals	-	(5,123)
Revaluation (losses)/gains	(2,888)	484
Valuation at 31 December	86,710	77,700

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2019, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements at fair value categorised with level 2 inputs (see note 18).

The historical cost of the group's investment properties is £76,832,000 (2018 £64,935,000).

The independent valuation of all property assets uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. Significant increases or decreases in estimated rental value and rent growth per annum in isolation, would result in a significantly higher or lower fair value of the properties. Significant increases or decreases in the long-term vacancy rate and discount rate in isolation would result in a significantly lower or higher fair value. Generally a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate and an opposite change in the long-term vacancy rate.

In addition, ten investment properties with a carrying amount of £43,625,000 (2018 nine properties with a valuation of £41,600,000) are charged to Handelsbanken plc to secure the group's short- and medium-term loans.



## 8 Investment property continued

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

	2019 £'000	2018 £'000
Less than one year	5,864	4,500
Between one and five years	18,321	13,943
More than five years	14,903	13,979
	<b>39,088</b>	<b>32,422</b>

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

## 9 Equity investments

	2019 £'000	2018 £'000
Valuation at 1 January	679	2,131
Disposals	(670)	(1,331)
Loss on revaluation in excess of cost	-	(121)
Valuation at 31 December	9	679
Unlisted investments transferred to other receivables	(9)	-
Equity investments at 31 December	-	679

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

	2019 £'000	2018 £'000
Realised gains on equity investments	53	35
Revaluation gains on equity investments	-	13
	<b>53</b>	<b>48</b>
Realised losses on equity investments	-	32
Revaluation losses on equity investments	-	134
	<b>-</b>	<b>166</b>

## 10 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	310	103
Accrued rent receivable	814	358
Other receivables	23	10
	<b>1,147</b>	<b>471</b>

Amounts due from tenants at each year end include amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2019 amounts due from tenants which were more than 90 days overdue, which related to rents for 2019 or earlier, totalled £nil (2018 £nil).

## 11 Trade and other payables

	2019 £'000	2018 £'000
Deferred income	1,179	1,002
Social security and other taxes	572	509
Other payables	744	724
	<b>2,495</b>	<b>2,235</b>

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 2019

## 12 Interest bearing loan

	2019 £'000	2018 £'000
Short-term bank loans due within one year	4,000	-
Medium-term bank loans	22,200	19,400
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	-	4,000
Between two and five years	7,500	7,500
Over five years	14,700	7,900
	22,200	19,400

Further analysis of the short and medium-term bank loans, including the £6.8m drawn in 2019, is set out on page 25.

The average effective interest rate is 3.50% (2018 3.64%).

## 13 Deferred tax liabilities

Deferred taxation, arising from revaluation gains on equity investments, provided for in the financial statements is set out below and is calculated using a tax rate of 17% (2018 19%).

	2019 £'000	2018 £'000
At 1 January	33	254
Realised in the year	(33)	(173)
Released in the year	-	(48)
At 31 December	-	33

## 14 Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid 5,167,240 (2018 5,167,240) ordinary shares of 25p each	1,292	1,292

The directors monitor capital on the basis of total equity and operate within the requirements of the articles of association. There was £26,200,000 of short- and medium-term debt at 31 December 2019 (2018 £19,400,000 medium-term debt). The directors manage the group's working capital to take advantage of suitable commercial opportunities as they arise while maintaining a relatively low-cost capital base. This capital management policy is principally carried out by the use of surplus cash. In the medium-term, the directors may use additional medium-term debt to finance future commercial property acquisitions in line with its long-term strategy.

The rights and obligations relating to the company's share capital is summarised on page 53.

## 15 Capital commitments

There were no capital commitments at 31 December 2019 or at 31 December 2018.

## 16 Contingent liabilities

There were no contingent liabilities at 31 December 2019 or 31 December 2018.

## 17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.3% (2018 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:

	2019 £'000	2018 £'000
Transactions by the company:		
Property income distribution paid to related party	771	686
Licence fee for use of property and recharge of sundry costs paid to related party	15	14

The company owns 100% of Rodenhurst Estates Limited and of BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited. The transactions between these companies have been eliminated on consolidation. Details of the net assets and profit for the financial year of these companies are set out on page 80 of this annual report.

Charles Butler is a director of both the company and Belerion Capital Group Limited. During the year the company was charged £121 (2018 £258) by Belerion Capital Group Limited for meeting room hire of which £nil (2018 £124) was outstanding at the year end.

## 17 Related party transactions continued

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

	2019 £'000	2018 £'000
David Kingerlee	49	44
Roberta Miles	3	3

## 18 Financial instruments and financial risk

The following table presents financial instruments measured at fair value in the statement of financial position in accordance with fair value hierarchy. This hierarchy groups financial instruments into three levels based on the significance of issues used in measuring the fair value of the financial instruments. The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's-length basis;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: the fair value of financial instruments that are not traded in an active market – for example, investments in unquoted companies – is determined by reference to the last known price at which shares were traded.

There have been no transfers between these classifications in the year (2018 none). The change in fair value for the current and previous year is recognised through the consolidated statement of comprehensive income. The reconciliation of the carrying amounts of the financial instruments classified within levels 1 and 3 is set out below.

Investment properties are carried at fair value categorised with level 2 inputs. Details of the valuation process are included in note 8 to the financial statements.

IFRS 13 measurement classification	2019			2018		
	Level 3 Unquoted equity investments £'000	Level 1 Quoted equity investments £'000	Total Quoted and unquoted £'000	Level 3 Unquoted equity investments £'000	Level 1 Quoted equity investments £'000	Total Quoted and unquoted £'000
Opening cost	4	67	71	4	346	350
Opening unrealised gain	5	603	608	5	1,776	1,781
Opening fair value at 1 January	9	670	679	9	2,122	2,131
Transfer to other receivables at valuation	(9)	-	(9)	-	-	-
Disposal proceeds	-	(723)	(723)	-	(1,334)	(1,334)
Net profit realised on disposal	-	53	53	-	3	3
Change in fair value in the year on assets held at 31 December	-	-	-	-	(121)	(121)
Closing fair value at 31 December	-	-	-	9	670	679
Closing cost	-	-	-	4	67	71
Closing unrealised gain	-	-	-	5	603	608
At 31 December	-	-	-	9	670	679

# Notes to the consolidated financial statements continued

for the year ended 31 December 2019

## 18 Financial instruments and financial risk continued

Categories of financial instruments	2019		2018	
	Carrying amount £'000	Gains/ (losses) £'000	Carrying amount £'000	Gains/ (losses) £'000
Financial assets designated at fair value through profit and loss:				
Equity investments	-	-	679	(121)
Financial assets measured at amortised cost:				
Trade and other receivables	1,147	-	471	-
Cash and cash equivalents	1,559	-	5,202	-
	2,706	-	5,673	-
Financial liabilities measured at amortised cost:				
Interest bearing loans	26,200	-	19,400	-
Trade and other payables	744	-	724	-
	26,944	-	20,124	-

### 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 2019 the group had £26,200,000 (2018 £19,400,000) of short- and medium-term borrowing of which £4,000,000 is repayable in 2020, £7,500,000 in 2022, £3,400,000 in 2026, £4,500,000 in 2027 and £6,800,000 in 2029 at fixed interest rates averaging 3.50% (2018 3.64%). The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values. A maturity analysis is set out below:

	2019					
	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within one year £'000	Due in more than 1 but less than 2 years £'000	Due in more than 2 but less than 5 years £'000	Due in more than 5 years £'000
Bank loans	26,200	30,643	4,856	740	8,946	16,101
Trade and other payables	744	744	744	-	-	-

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

### Market risk

Market risk arose from that portion of the group's activities relating to investment in equities. This risk relates to the effect of market conditions on the pricing of the equities which forms the key component of their year-end valuation. This risk has now been eliminated as the listed equity portfolio was disposed of in February 2019.

### Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for credit losses, estimated by the directors. The allowance as at 31 December 2019 was £nil (2018 £nil). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2019 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 brokers acting as agents, though not for long periods of time. The group only places cash holdings with major financial institutions that satisfy specific criteria.



## 18 Financial instruments and financial risk continued

### 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 is in discussion regarding the re-financing of its short-term bank loans. 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 and re-financing of its short-term debt.

### Interest rate risk

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

### Currency exchange risk

The group is not directly exposed to currency risk. However, most of the group's equity investments were held in international companies until February 2019 when the investments were sold. The inherent currency risk affecting those holdings was an indistinguishable factor in determining their market value and was taken into consideration as part of the overall assessment of investment risk.

### Borrowing facilities

The group has no undrawn committed borrowing facilities.

## 19 Changes in liabilities arising from financing activities

	Bank loans (note 12) 2019 £'000
At 1 January	19,400
New loans	6,800
Interest charged	856
Interest paid	(856)
<b>At 31 December</b>	<b>26,200</b>

## 20 Net assets per share

	2019	2018
Net assets	£60,721,000	£62,384,000
Ordinary shares in issue	5,167,240	5,167,240
Basic net assets per share	1175p	1207p

## 21 Post balance sheet events

The World Health Organisation declared Covid-19 as a global pandemic on 11 March 2020 and on 23 March 2020 the UK government imposed a lock-down on the whole population which shut most businesses, venues and facilities. As a result of this pandemic the businesses of a number of our tenants have been adversely affected and this may in turn affect their ability to pay rent to us. The effects of this pandemic on the risks to and the viability of Highcroft are considered in more detail on pages 26 and 27. The directors have, based on the information available at the date of this report, considered the potential financial impacts of this pandemic and concluded that there are no adjustments that need to be made to the 2019 financial statements in this regard.

# Company statement of financial position

at 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments	5		54,560		57,036
<b>Current assets</b>					
Debtors	6	6,647		5,921	
Cash at bank		28		29	
		6,675		5,950	
<b>Creditors – amounts falling due</b>					
within one year	7	514		569	
<b>Net current assets</b>			6,161		5,381
<b>Total assets less current liabilities</b>			60,721		62,417
<b>Provision for liabilities</b>	8		–		33
<b>Net assets</b>			60,721		62,384
<b>Capital and reserves</b>					
<b>Called up share capital</b>	9		1,292		1,292
<b>Reserves</b>					
– Share-based payment		12		–	
– Realised capital		8,728		8,118	
– Capital redemption		95		95	
– Revaluation		44,294		46,661	
– Retained earnings		6,300		6,218	
			59,429		61,092
<b>Shareholders' funds</b>			60,721		62,384

The profit and total comprehensive income for the period was £1,154,000 (2018 £4,926,000).

These financial statements were approved by the board of directors on 30 April 2020.



**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 2019

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

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

# Notes to the company financial statements

for the year ended 31 December 2019

## 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 potential financial impacts of Covid-19.

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

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

### Dividend revenue

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

### Share-based employee remuneration

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

### Interest income

Interest is recognised under the effective interest method.

### Dividends payable

Dividend payments are dealt with when paid as a change of equity in retained earnings. Final dividends proposed are not recognised as a liability.

### Investments

Investments are included at the following valuations:

- shares in subsidiary undertakings – at market value (net assets as shown by their financial statements are taken as a reasonable estimate of market value as their assets and liabilities are carried at fair value).
- equity investments at market value.
- unlisted investments – at market value estimated by the directors.

The directors manage and evaluate performance on a fair value basis and therefore have designated qualifying financial assets including shares in subsidiary undertakings at fair value through the profit and loss account. Other movements are recognised directly in equity.

### Receivables

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

### Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are presented within provisions for liabilities.

### Financial liabilities

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

### Gains on disposals of assets

Gains on disposals of assets are the excess of net proceeds over the valuation at the beginning of the year. They are not available for distribution under the company's articles of association and are taken to realised capital reserve.



## 2 Company profit for the year after tax

The company has not presented its own profit and loss account as permitted under section 408 of the Companies Act 2006. The profit after tax for the year was £1,154,000 (2018 £4,926,000). Information regarding directors' remuneration appears on pages 44 to 52 of this annual report.

## 3 Auditor's fees

	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the group's annual accounts	33	31
Fees payable to the company's auditor for other services:		
Audit related assurance services	2	1
	35	32

## 4 Dividends

In 2019 the following dividends have been paid by the company:

	2019 £'000	2018 £'000
2018 Final: 33.75p per ordinary share (2017 30.00p)	1,744	1,550
2019 Interim: 21.00p per ordinary share (2018 18.75p)	1,085	969
	2,829	2,519

On 30 April 2020 the directors declared a property income distribution of £1,395,000, 27.00p per share (2018 £1,744,000, 33.75p per share) payable on 19 June 2020 to shareholders registered at 15 May 2020.

## 5 Investments

	Total £'000	Shares in subsidiary undertaking £'000	Other investments	
			Listed £'000	Unlisted £'000
Valuation at 1 January 2019	57,036	56,357	670	9
Disposals	(670)	-	(670)	-
Transfers to current assets	(9)	-	-	(9)
Surplus on revaluation in excess of cost	(1,797)	(1,797)	-	-
<b>Valuation at 31 December 2019</b>	<b>54,560</b>	<b>54,560</b>	<b>-</b>	<b>-</b>

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

	Total £'000	Shares in subsidiary undertaking £'000	Other investments	
			Listed £'000	Unlisted £'000
<b>Cost at 31 December 2019</b>	<b>10,271</b>	<b>10,271</b>	<b>-</b>	<b>-</b>
Cost at 31 December 2018	10,342	10,271	67	4

At 31 December 2019 the company held 100% of the allotted ordinary share capital and voting rights of Rodenhurst Estates Limited, which is a property-owning company registered in England and Wales and operating in England and Wales. In turn Rodenhurst Estates Limited owned 100% of the allotted ordinary share capital and voting rights of BL (Wisbech) Limited, which is a holding company registered in England and Wales and operating in England. In turn BL (Wisbech) Limited owned 100% of the allotted ordinary share capital and voting rights of Belgrave Land (Wisbech) Limited, a property-owning company registered in England and Wales and operating in England. All the subsidiaries had the same registered office address as the company: Thomas House, Langford Locks, Kidlington, Oxfordshire, OX5 1HR.

# Notes to the company financial statements continued

for the year ended 31 December 2019

## 5 Investments continued

At 31 December 2019 the net assets and the profit for the financial year of these subsidiaries were:

	2019		2018	
	Net assets £'000	Profit/(loss) for the financial year £'000	Net assets £'000	Profit/(loss) for the financial year £'000
Rodenhurst Estates Limited	54,557	1,203	56,354	5,114
BL (Wisbech) Limited	-	-	-	-
Belgrave Land (Wisbech) Limited	3,040	(66)	3,106	(750)

## 6 Debtors

	2019 £'000	2018 £'000
Owed by subsidiary undertakings	6,426	5,850
Other debtors	221	71
	6,647	5,921

## 7 Creditors – amounts falling due within one year

	2019 £'000	2018 £'000
Other taxes and social security	82	53
Other creditors	432	516
	514	569

## 8 Provision for liabilities – deferred tax

Deferred tax, arising from revaluation gains on equity investments, provided for in the financial statements is set out below and is calculated using a tax rate of 17% (2018 19%).

	2019 £'000	2018 £'000
At 1 January	33	254
Utilised	(33)	(173)
Reversals	-	(48)
At 31 December	-	33

## 9 Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid 5,167,240 (2018 5,167,240) ordinary shares of 25p each	1,292	1,292

## 10 Capital commitments

There were no capital commitments at 31 December 2019 or at 31 December 2018.

## 11 Contingent liabilities

There were no contingent liabilities at 31 December 2019 or at 31 December 2018.

## 12 Related party transactions

Kingerlee Holdings Limited, through its subsidiaries, owns 27.3% (2018 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:

	2019 £'000	2018 £'000
Property income distribution paid to related party	771	686
Licence fee for use of property and recharge of sundry costs paid to related party	15	14

Charles Butler is a director of both the company and Belerion Capital Group Limited. During the year, the company was charged £121 (2018 £258) by Belerion Capital Group Limited for meeting room hire of which £nil (2018 £124) was outstanding at the year end.

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

## 13 Employees

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

	2019 £'000	2018 £'000
Remuneration	546	485
Pension costs	3	2
Social security costs	65	58
	614	545

## 14 Post balance sheet events

The World Health Organisation declared Covid-19 as a global pandemic on 11 March 2020 and on 23 March 2020 the UK government imposed a lock-down on the whole population which shut most businesses, venues and facilities. As a result of this pandemic the businesses of a number of our tenants have been adversely affected and this may in turn affect their ability to pay rent to us. The effects of this pandemic on the risks to and the viability of Highcroft are considered in more detail on pages 26 and 27. The directors have, based on the information available at the date of this report, considered the potential financial impacts of this pandemic and concluded that there are no adjustments that need to be made to the 2019 financial statements in this regard.

## Group five year summary

(unaudited)

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Investment properties – at annual valuation	86,710	77,700	77,113	65,997	57,964
Equity investments – at market value	-	679	2,131	2,469	3,155
Total net assets	60,721	62,384	59,977	55,325	53,023
Net asset value per share in issue at end of each year	1175p	1207p	1161p	1071p	1026p
<b>Revenue (excluding gains/losses on disposals of assets)</b>					
Gross income from property	5,840	5,043	4,765	3,906	3,435
Net admin expenses to gross rent	14.1%	14.6%	13.9%	16.7%	15.5%
Profit available for distribution	4,055	4,512	3,348	2,912	2,871
<b>Share capital</b>					
Average number in issue ('000s)	5,167	5,167	5,167	5,167	5,167
Basic earnings per ordinary share	22.3p	95.3p	132.3p	84.0p	140.0p
Adjusted earnings per ordinary share	78.5p	87.3p	64.8p	55.7p	55.6p
Dividends payable per ordinary share	48.00p	52.50p	46.25p	41.00p	38.80p
FTSE 350 Real Estate Index	602	468	568	515	588
Highcroft year-end share price	942.5p	885.0p	887.5p	897.5p	987.5p

## Directors and advisers

### Company number

00224271

### Directors

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

### Company secretary

Roberta Miles, MA FCA

### Independent auditor

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

### Independent valuer

Knight Frank LLP  
55 Baker Street  
London  
W1U 8AN

### Bankers

Lloyds Bank plc  
Ground Floor  
Canons House  
Canons Way  
Bristol  
BS1 5LL  
*and*  
Handelsbanken plc  
Latimer House  
Langford Locks  
Kidlington  
Oxon  
OX5 1GG

### Solicitors

Clarkslegal LLP  
5th Floor  
Thames Tower  
Station Road  
Reading  
RG1 1LX  
*and*  
Charles Russell Speechly LLP  
5 Fleet Place  
London  
EC4M 7RD

### Property managing agents

Workman LLP  
Alliance House  
12 Caxton Street  
London  
SW1H 0QS

### Corporate finance advisers

Nplus1 Singer Advisory LLP  
One Bartholomew Lane  
London  
EC2N 2AX

### Registrars

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Tax advisers

Grant Thornton UK LLP  
30 Finsbury Square  
London  
EC2A 1AG

### Registered office and business address

Thomas House  
Langford Locks  
Kidlington  
Oxon  
OX5 1HR





# Highcroft

Investments PLC

Thomas House  
Langford Locks  
Kidlington  
Oxon  
OX5 1HR

[www.highcroftplc.com](http://www.highcroftplc.com)