

Leveraging market opportunities to grow sustainably

Annual report and accounts for
the year ended 31 December 2022

Highcroft Investments PLC

Who we are

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

Our purpose

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

Our vision

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

Our culture

Our culture is open and supportive. Integrity is a value that defines our culture and underpins the way that we do business.

Our values

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

Our strategy

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

Our competitive strengths



**AN EXPERIENCED
INTERNAL TEAM**



**STRONG
BALANCE SHEET**



**GOOD-QUALITY
PROPERTY ASSETS**



**CONSERVATIVE
GEARING**



View more online at:
www.highcroftplc.com



Sustainable thinking, responsible business

What sustainability means for Highcroft

At Highcroft, we strive to conduct our business in an ethical and responsible manner, making a positive contribution to society whilst minimising any negative impacts on people and the environment. We recognise that natural resources are finite and should be used responsibly. Our climate strategy and objectives are the responsibility of the board and potential climate-related risks are identified and monitored as part of our wider risk-management procedures.

Where opportunities have arisen to upgrade and improve the efficiency of our buildings from a sustainability aspect, we have addressed this. At St Mary's House, Cardiff, our improvements over the year included installing upgraded LED lighting systems and the provision of cycle spaces and shower/changing facilities, with reduced car park spaces to encourage cycling to work. Our work over the coming year will continue to focus, with our property asset managers, on prioritising actions to address our EPC ratings across the portfolio.

In terms of undertaking a comprehensive approach to sustainability, prior to submitting our planning application for our proposed development in St Austell, extensive ecological surveys were undertaken to ensure the habitat was protected and/or replaced. The consented building will be built to the BREEAM 'very good' standard specification, involving the latest technology for sustainability.

We will continue to take into consideration sustainability matters, together with the views received from our stakeholders, as we contemplate any decisions on future capital spend.

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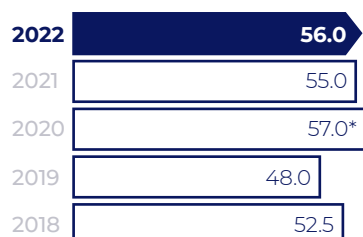


Highlights

1 Dividends payable to shareholders

56.0p

1.8%

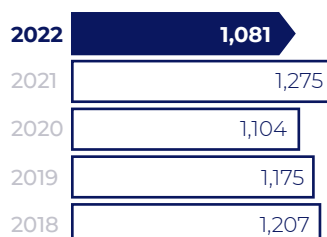


* includes special dividend of 6p per share

2 Net asset value per share

1,081p

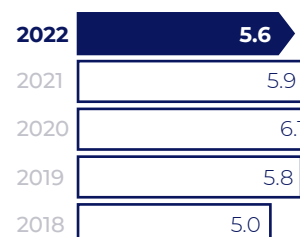
(15.2%)



3 Gross property income

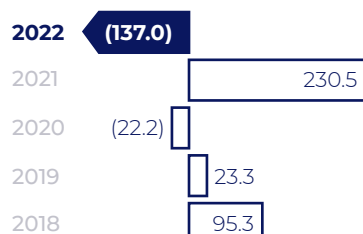
£5.6m

(5.4%)



6 Total earnings per share

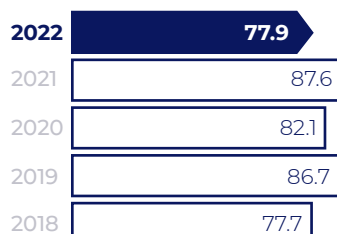
(137.0p)



7 Value of property assets

£77.9m

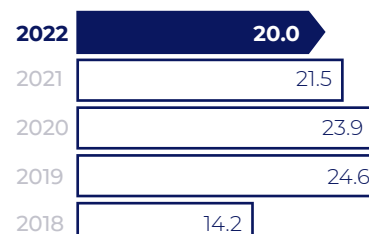
(11.0%)



8 Net debt/gearing

£20.0m

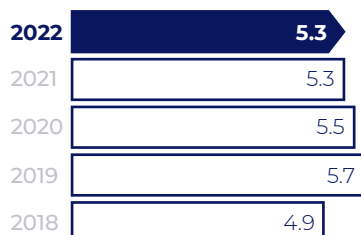
(36%)



4 Net property income

£5.3m

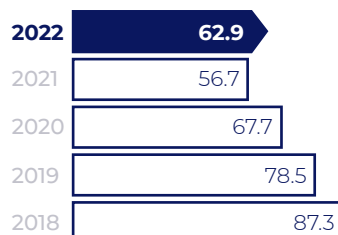
0.3%



5 Adjusted earnings per share

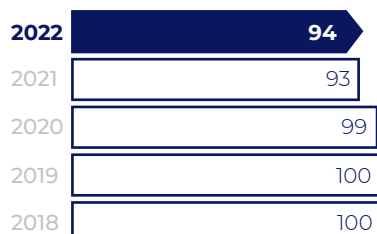
62.9p

6.2p



9 Occupancy

94%



Chairman's statement

Charles Butler

Chairman



Highcroft has not been immune to the macro-economic factors affecting the UK and the wider global economy during 2022. Just as the economy started to recover from the Covid-19 pandemic, we were hit by the effects of the Russian invasion of Ukraine, which contributed to a year of soaring inflation, significant rises in interest rates and political instability. However, while the gains in net asset value of 2021 were reversed in 2022, I am pleased to say that due to our diversified portfolio, strong balance sheet, low levels of gearing, and low fixed borrowing costs, our profit before tax increased during the year leading to a 1.8% increase in the total annual dividend. I believe we are well positioned to weather the current economic challenges and to continue to deliver an attractive, secure, and long-term dividend to our shareholders.

Property portfolio

During 2022, our portfolio remained unchanged. It remained focussed on warehouses and retail warehouses, which made up 72% of our portfolio by asset value at the year end. These sectors performed well in the first half of 2022, but were affected by the significant adverse market movements in the second half of the year. On a like-for-like basis, our total portfolio reduced by 11.8% (£10.4m), which was better than the all-property market negative movement of 14.2%.

We did not acquire any properties during the year, although we carried out improvement work at our Cardiff property and gained planning permission for the development of an industrial unit at our property in St Austell, resulting in additions of £0.7m. After the year end, in February 2023, we sold our Llantrisant asset for £7.85m, £1.1m above the 2022 year-end valuation and £0.9m above cost. As this asset had been vacated by the tenant during 2022, and the lease expired in Q1 2024, this disposal, at this price, in the current market protects shareholder value in the medium term. We intend to invest our available cash back into property that meets our strict selection criteria in a timely manner. Despite the macro-economic challenges affecting our tenants in 2022, we collected 100% of the rent due for the year (2021 97%) and we let one of the two properties that were void at the start of the year, leaving one void unit, our Cardiff asset, representing 6% of our rental income. At the year end, contracted rental revenue was 0.2% higher than at 31 December 2021, whilst net rental income remained constant at £5.3m compared to 2021.

Our net assets have fallen by £9.9m, 15.0%, (2021 rise of £9.0m, 15.7%), primarily as a result of the movements in property valuation.

We have kept our debt levels low at 36% LTV with a weighted average cost of debt of 3.06% and have no debt maturing before 2026.

Dividend

The company's interim dividend was 23p, a 4.5% increase on 2021, and we are proposing a final dividend for 2022 of 33p per share, taking the total dividend for 2022 to 56p per share. This represents an increase of 1.8% from the 2021 dividend of 55p per share.

Continued focus on ESG

Highcroft has a clear purpose of providing our tenants with excellent properties in optimal locations, enabling them to succeed, and our stakeholders to benefit on a long-term sustainable basis. As a board, we have maintained our focus on sustainability, particularly during the refurbishment of our Cardiff asset and the design of a new building at our St Austell site. We continue to develop the most appropriate strategy for reducing our environmental impact within the existing portfolio and consider ESG matters in the selection of new assets.

People

Our strategy is focussed on our competitive strength and our people, including our advisory teams, who are critical to this. In September 2022, Simon Gill indicated his intention to stand down as executive director on 31 March 2023 and I would like to thank him for his valuable contribution to the board over the past decade, which has been a period of significant growth for the group. He leaves behind a strong and well-positioned property portfolio.

In January 2023, we were pleased to announce the appointment of Paul Leaf-Wright as chief executive with effect from 1 January 2023. He brings with him a wealth of experience of property companies and of delivering shareholder value. As part of this change, we have also appointed new property advisers to the board and both they and Paul have completed their handover from Simon Gill.



We are well placed to continue to deliver long-term secure returns for our shareholders



Outlook

Highcroft's performance in 2022 was resilient, notwithstanding global and UK events causing repercussions in our marketplace. Since the year end, as mentioned, we have successfully sold one of our properties for £7.85m, an increase of 16% over the 31 December 2022 valuation. With our well-positioned portfolio, low level of well-priced debt and cash in the bank for reinvestment, we are well placed to continue to deliver long-term secure returns for our shareholders.

Our AGM this year will, as last year, be an open meeting, and I look forward to meeting those of you who can make it.

Charles Butler

Chairman
27 March 2023

Why invest in Highcroft?

01 Strong balance sheet and cash generative

Our £77.9m, 847,559 sq ft of assets underpin our balance sheet and financial strength.

02 Strong dividend returns

Our dividends have increased by a compound annual rate of 6.1% since joining the REIT regime in 2009, and payments to shareholders were maintained during the Covid-19 pandemic.

03 Diversified and sustainable income from the UK property market

We had 21 assets at 31 December 2022, spread across five sectors, geographically focused in the south of the UK with a WAULT of five years.

04 Strong internal management team

Our experienced executive team has consistently delivered on our strategy; they are aligned with shareholders and have a consistent track record. The new chief executive has significant experience of delivering stakeholder expectations.

05 Growing occupier demand

In certain sectors there is increasing demand for the right property in the right places for good tenant covenants.

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.



Aligning to stakeholder interests

Highcroft has a wide group of stakeholders including its shareholders, tenants, employees, advisory team and suppliers, our local community and the environment. As described in more detail on page pages 46 to 47, we engage effectively with our stakeholders to ensure that their interests are considered during our decision making.

 Read more about [our strategy](#) on pages **24** to **27**



Introduction to our property portfolio

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

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

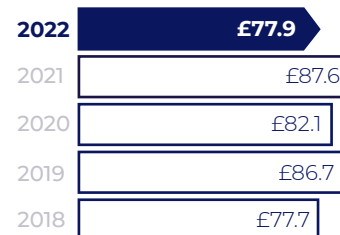
Prior to entering into a lease with a tenant, we will undertake financial due diligence to ensure the prospective tenant can meet its financial commitments under the lease.

Our tenant criteria: ensuring our tenants are sustainable

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

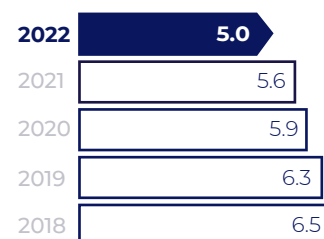
Investment properties at annual valuation

£77.9m

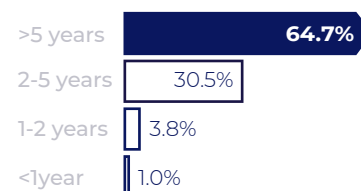


Weighted average lease length

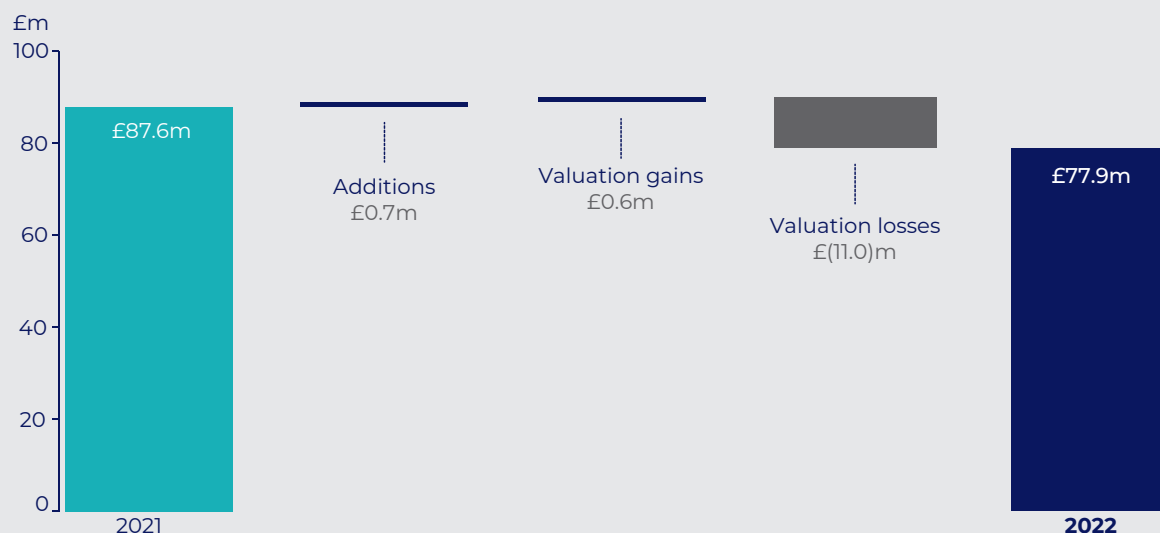
5.0 years



Weighted average lease expires



Movements in investment property valuation



Group at a glance continued

Our portfolio in 2022

TOTAL VALUE

£77.9m

DISPOSALS

£nil*

AVERAGE LOT SIZE

£3.7m

ADDITIONS TO EXISTING PROPERTIES

£0.7m

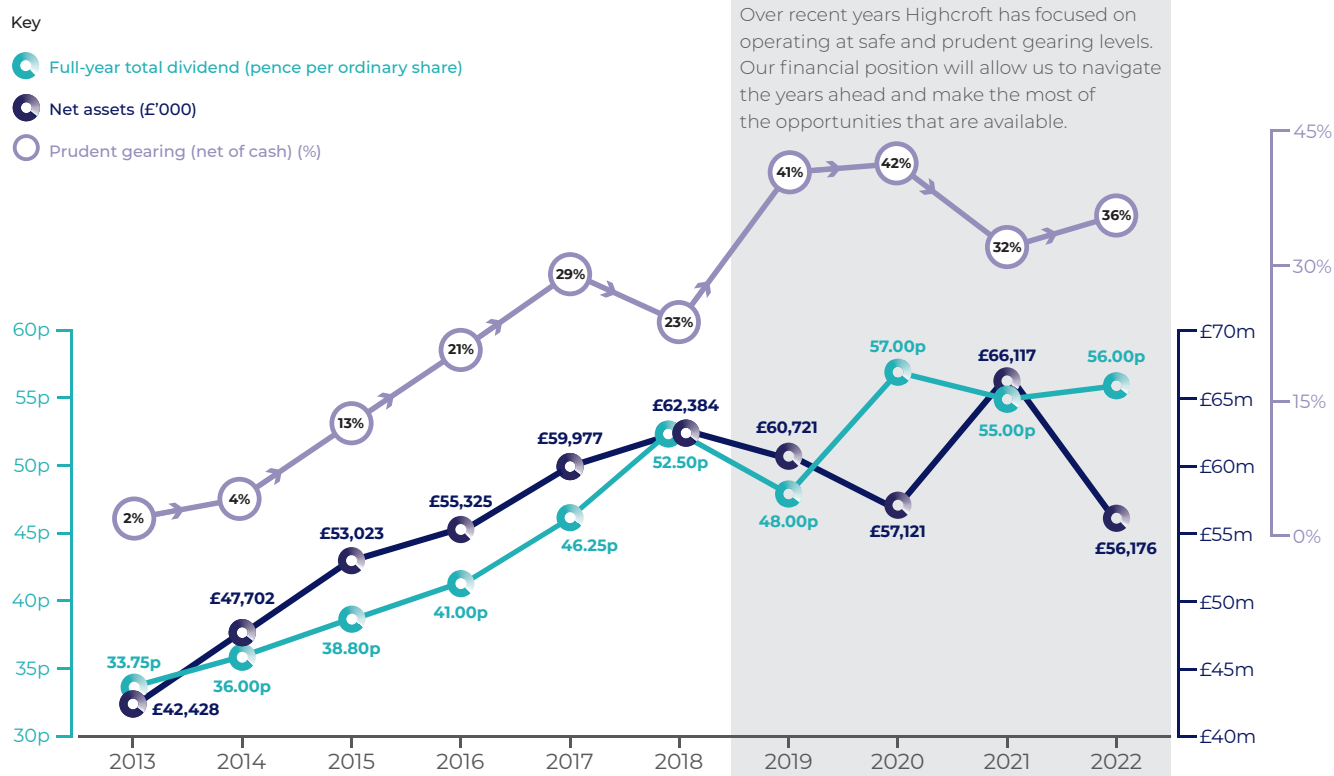
NUMBER OF PROPERTIES

21

* Property valued at £6.75m sold in February 2023 for £7.85m

Looking back at the past ten years

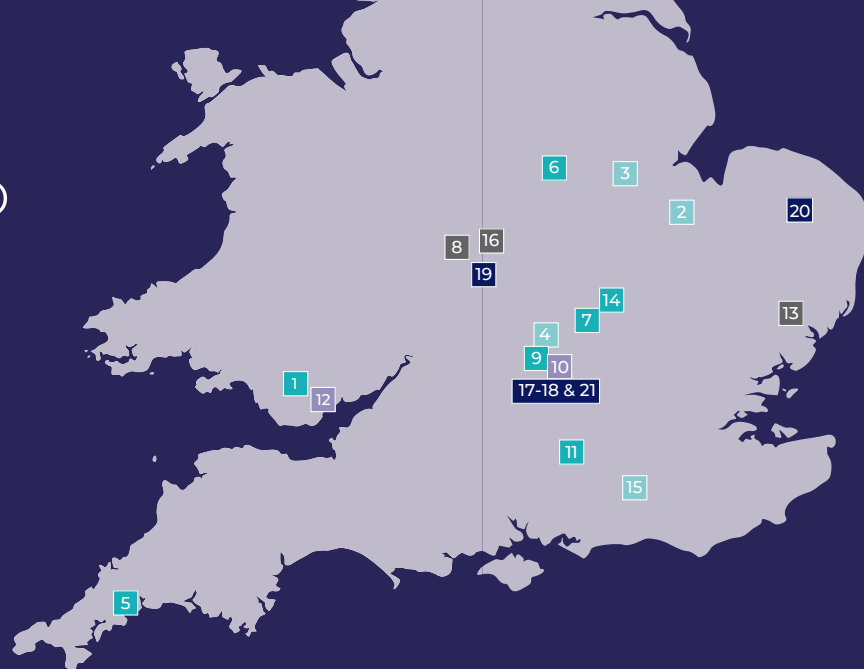
The Highcroft team has delivered stable and consistent returns to shareholders



Our portfolio

Our core sectors

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



Introduction

The portfolio remains well balanced between the sectors with a bias towards the warehouse and retail warehouse sectors, which comprise 72% by value and offer particularly resilient occupational markets.

Looking forward, the asset composition within each sector also provides good opportunities for revenue growth via new retail and offices leases on Oxford High Street, lease renewals on two retail warehouse units at Wisbech, a new office letting at Cardiff and a new warehouse development at St Austell.

There has been further opportunity to capitalise on the growth of the life science sector and government-backed industry within Wales at Llantrisant via a strategic sale before the BAEE lease expiry.

Warehouse/industrial

Take up of 'logistics' units of over 100,000 sq ft reduced slightly from 2021 levels, but was still higher than the five-year average and the third best year on record. Logistics companies are now more active than e-commerce and headline rents have grown 10.3%, whilst supply has increased to 6.4% (or 2.5% if ongoing speculative construction is excluded). Grade A supply has increased by 47%, but based on the take-up rate over 2022, this only accounts for ten months of demand.

The prime assets with near-term reversion have held liquidity, albeit with a 200bps discount from 2021. Yields at the close of 2022 were 5.25%–5.50% for prime assets with 15-year leases or up to 6.00% for secondary distribution and with ten-year income, according to Knight Frank.

Retail warehouse

The retail warehouse sector was one of the best performing of any of the traditional real estate sectors in 2022, driven by excellent capital growth and robust income return. Retail warehousing remains an attractive proposition, given its price adjustment over recent years, and capital remains prominent within the sector, particularly targeting added-value and opportunistic assets, and those supported by strong anchor tenants, such as supermarkets. Locations with affluent catchments have proven to be very resilient over recent years, a trend we expect to continue. Recent occupier demand has been focused on these types of destinations, attracted by strong demographics less likely to be hit by the cost-of-living crisis.

Yields have moved out by 100bps to 5.75% for the best quality solus open AI stock with 15-year income, whilst good secondary retail parks have moved to 7.50%. Out-of-town open AI essential retailers are priced at 6.00%. Out-of-town vacancy rates remain the lowest of all the retail sub-sectors at 9.7% (Q3 2022).

Warehouse assets		Value £'000
1	Llantrisant	6,750,000
5	St Austell	5,950,000
6	Nottingham	5,175,000
7	Milton Keynes	5,150,000
9	Kidlington	4,600,000
11	Ash Vale	4,000,000
14	Bedford	3,250,000
Total		34,875,000

Retail Warehouse assets		Value £'000
2	Wisbech	6,650,000
3	Grantham	6,400,000
4	Bicester	5,950,000
15	Crawley	2,500,000
Total		21,500,000



Leisure

Leisure spend reported strong growth over the summer; however, mounting financial pressures on occupiers may challenge the sector in the short term. Nonetheless, consumer engagement in leisure activities saw leisure spend increasingly improve as lockdowns ended. Whilst rising prices are of concern, a desire to enjoy affordable luxuries continues to drive visits. Leisure operators may, naturally, experience an upswing in revenues from overseas tourism and from consumers forgoing overseas holidays in favour of cheaper UK staycations.

Prime leisure park yields registered at 7.50% for December 2022, moving out from 7.00% in September. Secondary yields softened to 9.00% in December 2022, having previously been at 8.00% in September.

Office

Take-up across the regional cities up until Q3 2022 was only 5% below the five-year annual average but an improvement on recent years since the Covid-19 pandemic. However take up in Q4 is likely to be down when figures are released, reflecting business uncertainty. Grade A supply increased in Q3 following development and refurbishment completions; however, supply of grade A space remains constrained and the associated record prime rents have held their level, illustrating the occupier focus on securing the best quality space. Investment activity slowed in Q3, and Q4 transactions outside London are anticipated to be significantly down as investors sought prime industrial investments at material discounts in preference to offices, which carry more capital risks through cyclical obsolescence.

Major regional city yields with five-year WALTs are between 6.5%–7.00%, whilst south-east towns are at 7.00%–7.50%.

High street retail

High street retail continues to be a heavily-affected sector in the wake of the cost-of-living crisis and rising inflation. Demand, principally originating from property companies and UK/overseas private investors, remains focused on opportunities in better-quality, south-east centres, and some regional cities. The relative simplicity, low management and elevated yields mean that these opportunities have remained relatively liquid, especially over small lot sizes.

In December, Knight Frank's view on prime high street yields softened to 6.75% with regional cities sitting at 7.00% and good secondary yields at 9.00%–9.25%.

Leisure assets

Value
£'000

8	Rubery	4,700,000
13	Ipswich	3,450,000
16	Coventry	1,725,000
Total		9,875,000

Office assets

Value
£'000

10	Oxford	4,100,000
12	Cardiff	3,500,000
Total		7,600,000

High street retail assets


Value
£'000

17 18	Oxford (2 units)	1,675,000
19	Leamington Spa	1,100,000
20	Norwich	700,000
21	Oxford	585,000
Total		4,060,000

Our portfolio continued

Warehouse














Total value £34.9m

			TENURE	LET TO	VALUE £'000	SIZE sq ft
11	ASH VALE		FREEHOLD WAREHOUSE		4,000	25,081
14	BEDFORD		FREEHOLD WAREHOUSE		3,250	40,536
9	KIDLINGTON		FREEHOLD WAREHOUSE		4,600	30,638
1	LLANTRISANT ¹		VIRTUAL FREEHOLD WAREHOUSE/ R&D FACILITY		6,750	111,036
7	MILTON KEYNES		FREEHOLD WAREHOUSE		5,150	43,111
6	NOTTINGHAM		FREEHOLD WAREHOUSE		5,175	83,010
5	ST AUSTELL		FREEHOLD WAREHOUSE		5,950	250,087

¹ Disposed of February 2023 see page 26 for more details.

Retail warehouse

Total value £21.5m







			TENURE	LET TO	VALUE £'000	SIZE sq ft
4	BICESTER		FREEHOLD RETAIL WAREHOUSE		5,950	29,129
15	CRAWLEY		FREEHOLD RETAIL WAREHOUSE		2,500	6,879
3	GRANTHAM		FREEHOLD RETAIL WAREHOUSE	 	6,400	42,090
2	WISBECH		FREEHOLD RETAIL WAREHOUSE	    	6,650	55,628

 Warehouse
  Retail warehouse
  Leisure
  Office
  High street retail

Our portfolio continued




Leisure

Total value £9.9m

			TENURE	LET TO	VALUE £'000	SIZE sq ft
16	COVENTRY		FREEHOLD LEISURE		1,725	5,953
13	IPSWICH		FREEHOLD LEISURE		3,450	43,928
8	RUBERY		FREEHOLD LEISURE		4,700	38,264



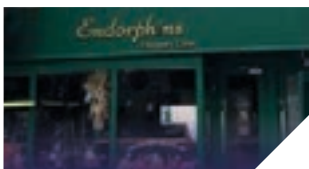

Office

Total value £7.6m

			TENURE	LET TO	VALUE £'000	SIZE sq ft
10	OXFORD SUMMERTOWN		FREEHOLD OFFICES		4,100	11,770
12	CARDIFF		FREEHOLD OFFICES	VOID	3,500	17,797

High street retail

Total value £4.1m

			TENURE	LET TO	VALUE £'000	SIZE sq ft
19	LEAMINGTON SPA		FREEHOLD SHOP	SABRE RETAIL LTD T/A MINT VELVET	1,100	2,619
20	NORWICH		FREEHOLD SHOP	<i>Harriets</i> Est. 1799	700	3,349
21	OXFORD HIGH STREET		FREEHOLD SHOP	<i>Endorphins</i> Beauty & Wellness	585	1,685
17-18	OXFORD HIGH STREET		FREEHOLD SHOP	ROBINSON WEBSTER T/A JIGSAW	1,675	4,969

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

An aerial photograph of an industrial estate. In the foreground, there's a large, light-colored corrugated metal roof of a building. To the right, a multi-story industrial building with a grey facade and several windows is visible. Below it, a parking lot is filled with various cars and a white bus. Further back, another industrial building with a blue roof is partially visible. The background shows more greenery and a road.

Strategy report

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UK Commercial Property Market

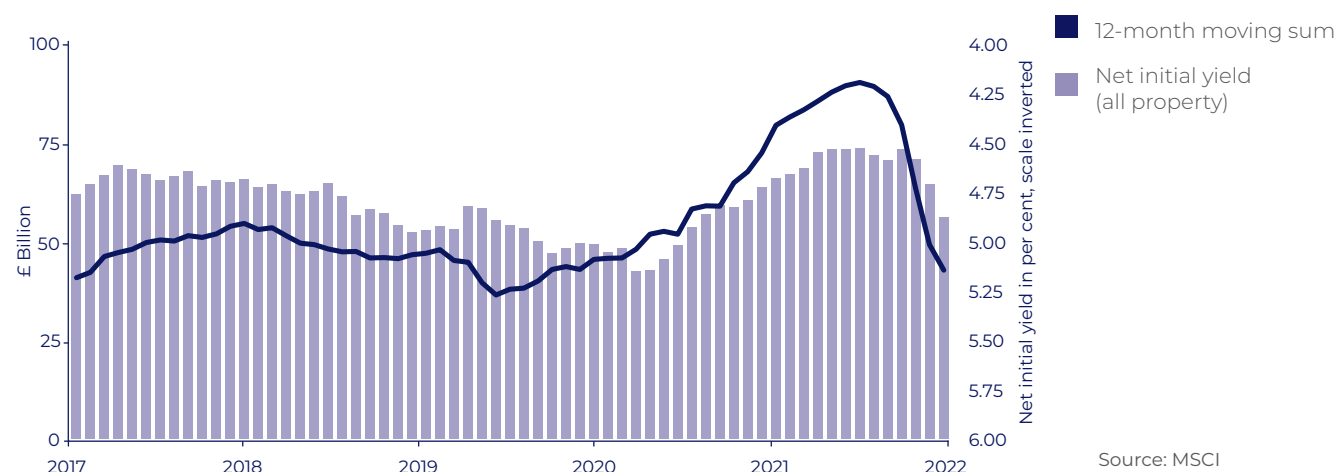
Macro environment

After an initial post-covid rebound for the UK economic climate, the grey cloud of inflation gathering over H2 2021 has darkened over the second half of 2022, hitting double-digit levels not seen for 40 years. The war in Ukraine and now China's easing of covid restrictions (without effective vaccinations) has exacerbated the constraints on supply chains that hang over from covid and Brexit. Perhaps, more significantly, though, the war in Ukraine and Europe's reliance on Russian gas has added huge energy cost inflation. The UK also faced unprecedented political turmoil, which resulted in five fiscal events occurring in 2022, including the 'mini-budget', which caused further disruption in the markets.

Economic backdrop

UK unemployment has been low, and wages have been rising, causing issues for many businesses. Both consumer and business spending are anticipated to slow, bringing inflation under control, although at the expense of higher unemployment throughout 2023.

Somewhat positively for the UK, core inflation, which strips away volatile food and fuel prices, has remained broadly flat at around 6% throughout 2022. Given that the World Bank forecasts that energy prices will fall by 11% in 2023, agricultural prices by 5%, and metal prices by 15%, compared to their 2022 averages, the inflationary outlook is improving. It is anticipated that there is 'pain to come' in the form of insolvencies and unemployment in the UK, but with inflation then, hopefully, under control, there is a more positive outlook to the end of the year and 2024, assuming no further shocks, such as an escalation of Russia's war in Ukraine.



Property investment

The UK investment markets were slowly recovering and rebalancing, despite the gathering inflationary pressures in late 2021. Notwithstanding these inflationary pressures, the prime retail and office markets had been repriced in early 2022 and the industrial sector continued to benefit from the unabated growth of rents driven by the continued growth of e-commerce and the boost from the effect of Covid-19 on supply chains. Mid-2022 investment volumes were above the five-year average and 2021 levels; however, the effect of the Ukraine war and UK political instability, peaking with the mini-budget in September, caused an acute increase in the cost of debt reducing property transaction volumes significantly, leaving the year 6% down on the five-year average and well below 2021.

Given debt costs moved over 2022 from roughly 3.5% to 6.0%, the prime industrial market, trading at yields of sub 4.0%, saw an immediate drop in pricing. However prime assets remained liquid given the structural growth of warehouse demand and we understand that many investors still realised a gain on their original investment despite a discount of circa 20% from valuation. December industrial investment

volumes were 45% below the five-year monthly average, whilst the years figures were still the second highest on record.

The office market, which was already being highly polarised between prime and secondary assets, lacked the same drivers of liquidity that the industrial market has, and December's trading volumes were 71% down on the five-year average, being the worst on record, and the total year's figures were 30% below the five-year average. London markets and life science-orientated assets were the stronger parts of the market.

Retail capital values have been falling since before Covid-19 and, given the relatively high yields, have been less effected by adjustment to higher debt costs. Retail investment volumes reached a seven-month high in December with unit shops seeing a one-year high and twice the monthly average with the years figures at 9% above the five-year average. Conversely, the leisure market came to almost a standstill in December although over the whole year was only 25% down on the 5-year average.

Looking forward, the industry expectation is for market pricing to move out in Q1 2023, where the future revenue and rental prospects of any asset class are squeezed by the cost-of-living crisis and a reduction in discretionary spend. Leisure assets and bulky retail assets are likely to feel this pinch the most whilst the grocery sector is defensive and the industrial sector is best placed for rental growth given

supply constraints. The market expectation is that Q2 will see a material increase in transactional activity, with 2023 transaction volumes being slightly less than 2022. However, recalibrating prices for sub-prime, non-ESG-compliant assets will take longer as refinancing needs clash with higher debt costs and tighter banking requirements.

Market trend	What this means for Highcroft	Highcroft's response to these trends
<p>Focus on energy within ESG</p> <p>The acute and unexpected increase in energy costs has brought, into greater focus, the demand for energy-efficient buildings from a cost perspective, in addition to the wider CSR and legislative drivers. This has accelerated the 'E' aspect of ESG in particular.</p> <p>Aside from a driver at tenant level, investment are seeking to retain and secure their constituent investors on the basis of ESG credentials.</p>	<p>Irrespective of energy costs stabilising in the future, energy-efficient buildings secure more competitive tension to lease.</p> <p>This growth of ESG is driving the need for greater depths of ESG credentials and, therefore, energy efficiency is critical and the simplest to measure.</p>	<p>We continue to engage with tenants and invest capital into assets to improve them. EPCs across the portfolio are recorded and monitored with every refurbishment. In addition, the wider commercial rationale of any acquisition or disposal considers the longer-term ESG credentials as a component of its investment attributes.</p>
<p>Business & consumer contraction in spending</p> <p>Inflation is expected to ebb in 2023, but only gradually, and to levels that are still high by historic standards with consensus among economic commentators anticipating a shallow recession with a further uptick in unemployment. Business surveys are pointing to a rising tide of corporate caution and cost control, which may swing into cost cutting over H1 2022. Consumers will continue to tighten spending; however, 2024 could mark a turning point for households.</p>	<p>Consumer-facing sub-sectors, such as retail, leisure and hospitality, will face another difficult year. Landlords could be looking at tenant bankruptcies, resulting in voids that are difficult to fill, given weaker business demand. However, many weaker businesses have already been sifted out by Covid-19, so the market is resilient, and this final purge should help these same sectors move into a new market cycle.</p> <p>It is possible that some redundancies in the financial and tech sectors could exacerbate the wider structural contraction in the UK office space post Covid-19.</p>	<p>As through the Covid-19 period, we will maintain a closely monitor tenant performance and seek to engage and manage any issues, collaboratively, with our tenants. However, we are prepared to pivot into a new tenancy or strategy, given that, in many instances, the underlying property could attract a stronger covenant or an alternative use.</p>
<p>Difficult debt environment and limited investment liquidity</p> <p>Net lending to commercial property increased for the third consecutive month in November 2022, at just over £1.0bn, the strongest rise in commercial property lending since December 2021. However, a higher cost of borrowing than we have been used to over the last decade is here to stay and affordability challenges are anticipated this year for UK investors.</p> <p>On account of debt costs shaken by economic instability, Q4 2022 (post September mini-budget) saw one of the lowest commercial property investment volumes traded in a decade, according to Costar. Clearly, debt is a key market driver looking forward, and given the collapse in investment volumes in Q4, asset liquidity and, therefore, debt security is critical.</p>	<p>2023 is likely to see some 'forced sellers' driven by refinancing events. To date, the prime industrial sector has remained relatively liquid, and at a significantly discounted value, despite good medium-term prospects for rental growth.</p>	<p>We remain secure with long-term funding in place and a strong portfolio of assets and tenants; however, timing of any debt refinance would need to be aligned with an optimal composition of the portfolio.</p>

UK Commercial Property Market continued

Industrial

Key trends

The structural shift within the retail sector, to balance e-commerce and returns with retailers' portfolios of shops, continues driving demand for suitable warehouses and, particularly, the 'last mile' logistics facilities, where land supply is most restricted. Manufacturing has proven to be an area of growth, with supply chain resilience through onshoring set to continue within the UK.

Occupier demand for industrial space is robust, with the shortage of available space expected to continue into 2023. Business rates are set to increase, significantly, in this sector given the increase in rents, which in combination with rental increases, has increased tenant costs.

What this means for Highcroft

Industrial is the largest exposure within the portfolio, totalling 45% by value. Whilst increasing operating costs may challenge some tenants, the favourable demand-supply dynamics and recent rental growth mean that the sector is very well placed to generate returns through rent reviews, re-gears and new leases, whilst the stabilisation of debt markets and investor confidence should return capital growth over 2023.

Highcroft's response to these trends

In November 2022, we secured planning consent for a new warehouse of 28,300 sq ft on 1.9 acres of land at Roche, St Austell, having identified a possible tenant, and are progressing the agreement of a new lease.

Retail warehouse

Key trends

Grocers and other discount retailers are seeking to grow their estates throughout 2023 with retail warehouses/parks often being one of the most suitable mediums for such growth. Tesco, Sainsburys, Asda and Morrisons, are looking for new sites to open convenience stores, and the discount chains, Aldi and Lidl, continue to embark on ambitious store opening plans – Aldi announced it would open 100 new stores over the next two years, whilst Lidl plan to open up to 200 new stores by 2025. At the value end of the sector, Greggs, Home Bargains, Poundland and B&M also have intent to expand.

What this means for Highcroft

The retail warehouse sector represents 28% of the portfolio by value. We would expect good levels of interest for our well-located assets should we experience any vacancies.

Highcroft's response to these trends

We are actively engaging in renewal discussions with tenants with short-dated leases to improve rental level and lease length.

Leisure

Key trends

2023 is anticipated to be a turbulent year for the leisure sector, particularly for some sub-sectors such as F&B (food and beverage), which will be heavily exposed to rising operating costs. International tourism is predicted to continue its rebound, with major events planned for 2023 across the UK, which will result in an increase in both overseas and domestic tourist spend in the UK. Although Health and Fitness operators have been vulnerable during previous recessions, there may be an increase in membership sales at budget gyms, as users of more expensive fitness centres and classes switch to cheaper alternatives to save money.

What this means for Highcroft

Tenant relationships will remain key in order to maintain valuations and revenue. The weighted average term certain for leisure assets within the portfolio is 12 years and with over 50% of tenants providing excellent covenant ratings. Leisure currently represents 13% of the portfolio by value.

Highcroft's response to these trends

We are in close contact with tenants and, where applicable, estate charges are carefully monitored to ensure best value for tenants.

Office

Key trends

High inflation is creating greater cost pressures for corporates, which is likely to further increase the focus on cost reduction and productivity. Although corporate real estate is the second-highest cost after salaries for many businesses, the provision of high-quality space can also help to increase productivity and attract talent. This, together with the longer-term impacts of the work-from-home revolution, means that many businesses continue to assess their real estate footprint, and are placing an ever-greater emphasis on smaller, but higher-quality, space.

What this means for Highcroft

In order to maintain values and marketability of tenant space, office space will need to be improved at each opportunity by engaging with tenants and property managers. There are two office assets within the portfolio, which comprise 10% of the portfolio by value.

Highcroft's response to these trends

During 2022, we have undertaken a refurbishment of c.18,000 sq ft of space at Cardiff, improving the specification and marketability of the asset.

High street retail

Key trends

2022 saw rapidly-rising inflation and household costs, which resulted in a decrease in households' discretionary spending. We expect similar trends in 2023 as the cost-of-living crisis impacts the sector.

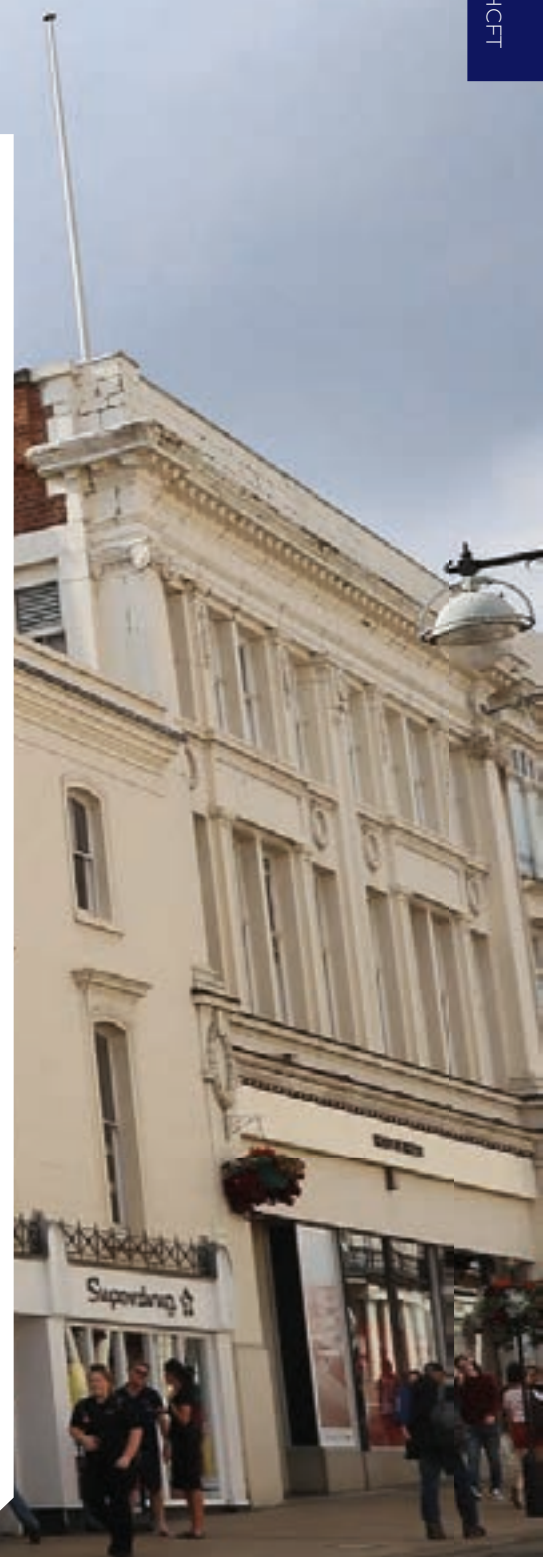
What this means for Highcroft

High street retail represents the lowest exposure within the portfolio of 5% by value. Company voluntary arrangements (CVAs) may become more common throughout the year; however, the rating revaluation due in 2023 will offer much-needed support for the sector.

Highcroft's response to these trends

A new lease has recently been agreed in Oxford on a 15-year FRI basis with the flexibility of five yearly mutual breaks.

Continual engagement with tenants and property managers helps us to understand tenants' financial strength, whilst we continue to closely monitor tenant performance through company publications, press releases and direct relationships.



Our business model

Strategy

We aim to deliver sustainable and long-term income and capital growth for shareholders

We endeavour to operate a cyclical model, buying when the market is low, generating rental income and selling, if appropriate, when the market is high in order to maximise cash to reinvest. We use a combination of our key resources to select the best opportunities within our chosen market sectors. We then redevelop and refurbish these in order to increase the value of the property, which allows us to secure higher rental incomes. We let our properties out on long leases, guaranteeing consistent income for our shareholders.

Our key resources

People

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

Financial strength

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

Our tenants

Our tenants are diverse companies with wide-ranging requirements. As shown on pages 12 to 15, they are mainly large commercial companies requiring property on long-term leases.

Our key relationships

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

Key activities

1 We buy

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

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

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

2 We generate

We use a combination of our key resources in order to select the best opportunities within our chosen market segments, to asset manage, redevelop or refurbish to increase the value, sustainability and income-producing capability of our assets.

3 We maximise potential

We maximise the value of our portfolio through redeveloping and refurbishing properties to meet tenant demands and maintain relationships to increase lease length and rental income. This also enables us to make our properties more sustainable – see pages 48 to 50 for our sustainability journey and future plans.

4 We sell

We strategically sell smaller lots and properties in under-performing markets, such as high street retail, to ensure long-term success – see pages 24 to 25 for the evolution of our property over the last five years

Our values

1 Reputation.....

Our reputation means everything to us and has been gained by the efforts of many over several years. Maintaining a strong reputation is critical and we recognise the value this plays in our relationships with our stakeholders. Retaining our reputation relies on us doing the right thing and is, therefore, only achievable with us acting in accordance with all our values and maintaining a sustainable business.



01

Highly-capable team

Our team has solid experience of delivering shareholder value in property and listed entities. For more information on the capabilities of our team, see pages 55 and 58 to 59.

02

Strong free cashflow

Highcroft consistently generates a strong cashflow, enabling it to maintain its dividend payments, even during the Covid-19 pandemic.

03

Diverse range of tenants

During 2022, Highcroft had 21 properties with 28 tenants consisting of 25 covenants.

04

ESG factors

ESG is at the forefront of our strategy. We are putting in place a plan to ensure that our assets have strong ESG credentials, which will help to ensure their longevity for income and value creation.

Underpinning everything we do**Our purpose**

To provide our tenants with quality properties, in good locations, enabling them to succeed and our stakeholders to benefit on a long-term, sustainable basis.

Value we generate**Shareholders****Short term**

Secure dividend income stream.

Medium term

Maintain dividends.

Long term

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

Tenants**Short term**

Supportive landlord/asset manager/tenant relationships.

Medium term

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

Long term

High quality environments that help our tenants succeed with their business strategy.

Society**Short term**

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

Medium term

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

Long term

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

2

Integrity

Integrity is a core value in how we conduct our business and an established part of our strategy. We gain trust by acting honestly at all times, by being open and candid in all our business relationships and, most importantly, in everyone one of our actions. When engaging with our stakeholders, we act with openness, honesty, and integrity and the board and employees take responsibility to ensure that all our business processes are run with integrity.

3

Good governance

The board maintains good governance at the centre of its decisions and discussions. Our framework supports the effective delivery of our strategy, the sustainability of our business and the creation of value for all our stakeholders continues to be supported by our governance structures and processes. Whilst we are a relatively-small premium-listed group, good governance is a key value and the board endeavours to follow the appropriate guidance and rules.

Our strategy

Introduction to 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.

Understanding the external environment

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

Strategic pillars



Building a portfolio of high-quality commercial properties in the right places occupied under good lease fundamentals by the right tenants

We will use our core strengths to identify under-performing or high-risk assets for disposal and to identify good replacement assets in our target geographical areas.



Using available capital, including debt, efficiently and effectively

We will invest cash as fully as is practicable, whilst maintaining an adequate headroom of working capital. We will continue to maintain conservative gearing levels.



Deliver a sustainable income return to our investors

Whilst having regard to the constraints imposed by the two main concert parties, we will aim to manage our asset base effectively and cost efficiently and to deliver a good dividend return for our investors on a sustainable basis.

Risk Key

1 Macro-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	8 Sustainability

Strategic priorities

A

Continue to grow our commercial property portfolio with a bias towards the south of England and Wales

B

Increase the average lot size to £4m–£5m, with no asset representing more than 15% of the portfolio

C

Seek capital growth opportunities within our property asset base

D

Use medium-term gearing at a modest level

E

Provide a good dividend return

Aligning to stakeholders' interests

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

Sustainability

We strive to conduct our business in an ethical and responsible manner. Our strategy is underpinned by this ethos.

How this priority will help us	Past progress	Future opportunities	Risk
Building a portfolio of high-quality commercial properties in the right places occupied by the right tenants with good lease fundamentals			
Commercial assets in these geographical areas are regarded by the directors as being best placed to outperform the market in any cycle. These locations are also considered relatively low risk and fit our risk profile.	We obtained planning permission on vacant land at our St Austell site and are in the advanced stages of awarding a tender for construction. In February 2023, we sold our vacant Llantrisant asset for 16% ahead of the December 2022 valuation.	We will identify suitable opportunities to invest the proceeds of our Llantrisant asset and will develop the new industrial unit at St Austell.	<div>1</div> <div>2</div> <div>3</div> <div>4</div>
As many costs are directly related to the number of assets rather than their size, increasing the average lot size should reduce average property costs, thereby increasing the net property income available for distribution.	Average lot size decreased to £3.7m from £4.2m, wholly due to a decrease in the valuation of the portfolio.	Future growth will come from revaluation gains, new assets are being bought that are larger lots than our average, and from the disposal of smaller underperforming units. As our largest asset, the sale of Llantrisant will reduce the average lot size.	<div>3</div> <div>4</div>
Identifying growth opportunities will enable, either, enhanced enhanced sales prices to be achieved or improve the yield from our properties.	We obtained planning permission on vacant land at our St Austell site and have let our void Oxford High Street property. We have also refurbished and carried out capital improvement work at our vacant Cardiff office unit.	Asset management initiatives to improve sustainability, and underpin the long-term capital value of our portfolio, are being identified.	<div>1</div> <div>2</div> <div>3</div> <div>4</div> <div>5</div> <div>8</div>
Using available capital, including debt, efficiently and effectively			
The use of keenly-priced debt to expand our property portfolio should increase our net property income.	<p>Our debt remains at £27.2m.</p> <p>We replaced an expiring facility during the year with a more keenly-priced new facility. Interest rates increased significantly in 2022, meaning new debt would not add value to the portfolio.</p> <p>Our interest rates are now fixed until 2026 at a weighted average of 3.06%.</p>	We have headroom with one lender of £2.8m and would consider additional gearing to fund further acquisitions alongside existing cash resources if interest rates reduce from their current levels.	<div>5</div> <div>6</div>
Deliver a sustainable income return to our investors			
Maintenance of a property income distribution stream that is increasing is our priority for enhancing shareholder value.	Dividends payable for 2022 increased by 1.8% to 56 pence per share, £2,909,000	As a REIT, we are required to distribute 90% of our net property income.	All

Our strategy case in action

- **Post balance sheet event – 2023 disposal**
- **Warehouse – Llantrisant occupied by British Airways Avionic Engineering Ltd (BAAE)**
- **December 2022 valuation £6.75m**
- **Disposed February 2023**
- **Gross proceeds £7.85m**
- **Purchased March 2019**
- **Cost £6.95m**
- **Rental income £805k pa**

We acquired the virtual freehold interest in this maintenance, research and development facility in 2019. The attractive yield, low rent and covenant strength meant that it fulfilled our purchasing policy of sourcing assets, which provide attractive returns for our shareholders. During our period of ownership, we received £2.5m of gross rental income (net of a rent-free period), a net yield of 9.3% on cost, with related property costs of less than £10,000.

During 2022, the tenant vacated the property and, as the lease was due to expire in March 2024, the decision was taken to dispose of the property rather than carry the risk of our largest asset by value, and income, becoming void.

Heads of terms for the sale were agreed in Q4 2022 and the purchasers were carrying out their due diligence into 2023. Contracts were exchanged and completed for the sale on 8 February 2023.

We intend to take action, in a timely manner, to protect income and net asset value by reinvesting the proceeds, together with some of our existing cash resources, into further property assets. We intend to focus this investment in the industrial sector, with longer unexpired lease terms, and to choose slightly smaller assets to avoid concentration risk.



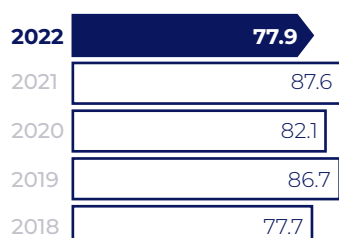
Our key performance indicators (KPIs)

The following key performance indicators are considered to be the most appropriate for measuring how successful the company has been in meeting its strategic objectives.

Financial KPIs

1 Movement in value of property assets

£77.9m
(11.8%) like-for-like



Link to strategy



Link to risks



Why we use this indicator

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

Commentary on performance

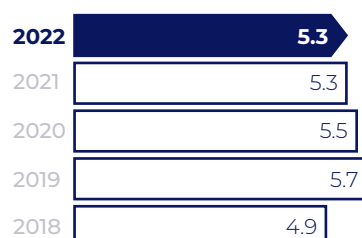
The value of our assets has decreased by £10,381,000, 11.8% on a like-for-like basis, which is ahead of the all-property MSCI decrease of 14.1% and the weighted (to our portfolio) MSCI average of 13.3%.

Looking forward

The sector and geographical spread of our assets, together with the lease lengths and covenant strength, result in a portfolio that should be stable in the year, especially given the volatility in asset values in the wider market.

2 Movement in net property income

£5.3m
0.3%



Link to strategy



Link to risks



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

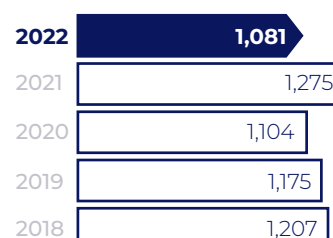
Net property income increased by £17,000, 0.3% in the year, as a result of a decrease in rental income of £320,000 offset by a decrease in property costs of £337,000, including a £111,000 reduction in bad debt charge.

Looking forward

In 2023, we hope to build on the progress made in 2022 where we have taken steps to further reduce bad debts and to deal with dilapidations and void costs arising at our empty unit. As we sold the Llantrisant asset in February 2023, we will be focussing on reinvesting the proceeds in good time in order to generate replacement income.

3 Movement in net asset value per share

1,081p
(15.2%)



Link to strategy



Link to risks



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 15.2% in 2022, primarily, as a result of the decrease in our property valuation and the net decrease arising from our revenue profits net of dividends paid in the year.

Looking forward

The market remains volatile in late 2022 and early 2023; our asset base is good and we believe that it is positioned to hold firm in 2023.

Read more about [our risks](#) on pages 38 to 45

Read more about [our portfolio](#) on pages 10 to 15

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

	Adjusted EPS % return	Weighted market return
2022	4.9	4.5
2021	5.1	6.6
2020	5.8	5.5

This KPI was new in 2020

Link to strategy

E

Link to risks

1 2 3

Why we use this indicator

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

Commentary on performance

Performance in 2022 was above the MSCI income return for the year, which reflects the effect of the lower property costs and tax charges net of the reduction in gross rental income.

Looking forward

It is hoped that future performance will continue at, or above, market levels, especially if we can fill our vacant property and reinvest cash from the sale of our Llantrisant property.

Non-financial KPIs

5 Average occupancy levels

94%

2022	94
2021	93
2020	99
2019	100
2018	100

Link to strategy

E

Link to risks

1 2 3

Why we use this indicator

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

Commentary on performance

We had 94% occupancy at the year end due to a void at one of our properties. We relet one void unit during the year.

Looking forward

We are focussing on ensuring that we have the best strategy in place to minimise the effect of our void Cardiff property.

We are pursuing lease renewal negotiations as our 2023 lease expiries.

6 Maintain the quality of our tenant covenants



Link to strategy

E

Link to risks

1 2 3

Why we use this indicator

This indicator signals the quality of our long-term income stream.

Commentary on performance

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

Looking forward

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

Operating review

Paul Leaf-Wright

Chief executive



Review of the year by outgoing chief executive Simon Gill

Property income

	2022	2021	2020	2019	2018
Contracted annual rent at year end	£5,710,000	£5,700,000	£5,907,000	6,253,000	5,025,000
Increase/(decrease) in year	0.2%	(3.5%)	(5.5%)	24.4%	1.2%
Occupancy	94%	93%	99%	100%	100%

The start of 2022 witnessed a return of confidence to the property market after the difficulties experienced due to the pandemic in the previous two years. Investment volumes picked up with the anticipated certainty of future income streams and the attraction of low interest rates. The £29.6bn transacted during the first six months of the year was ahead of the 2021 figure of £27.5bn, and well above the five-year H1 average of £25.7bn. The perceived stable UK economy continued to attract foreign investors.

The industrial/warehouse and retail warehouse sectors, which, when combined, make up 72% of our portfolio, witnessed good growth in values in the first half of 2022, and our assets increased in value by 7% and 6%, respectively. However, Amazon's announcement that it had satisfied its criteria and was no longer taking more distribution space sent a shiver of uncertainty through the market. The combination of the war in Ukraine, the resulting fuel crisis, rising interest rates and inflation led to a significant downgrading in valuations in the second half of the year.

Once again, the high street struggled with a record number of units vacant – the majority of which will be long term. With the government's reclassifying of property-use classes, the introduction of category E will see some of these properties change to more purposeful uses and a mix in the high street not seen for many years. This was a necessary step to ensure that the high street survives, but in a format more suited to today's society. Retail accounts for only 5% of our portfolio.

The office sector has been slow to recover/pick up from the lockdown/work-from-home rules, with a large percentage of the population having become accustomed to working from the comfort of their homes and proving reluctant to

return to the daily commute. The take up of new space has, therefore, been very limited and, as a consequence, yields have risen rapidly. Our office holdings constitute just 10% of our portfolio.

2022 proved to be a year of two halves; there were meaningful increases in values in the industrial/warehouse and retail warehouse sectors in H1, but the second half of the year evidenced a significant market slowdown in these sectors, and the investment market generally, due to rapidly increasing interest rates and inflation. This led to a decrease of 11% in our valuations for the year. This compares to the MSCI all property value decrease of 14.2%

Relative to the market, the portfolio has performed well and shows that having a good and diverse portfolio and tenant mix has helped.

Property acquisitions and disposals

We made no acquisitions or disposals in 2022, but concentrated on the management of our existing portfolio and ensuring our tenants had fully recovered from the pandemic effects of the preceding two years. We obtained planning consent for a c.28,500 sq ft warehouse on land that we obtained vacant possession of following a lease regear at our holding in St Austell in 2021. Terms have now been agreed for a pre-let to a distribution company, and works are to commence shortly with a planned completion date of December 2023.

During the year, we let our one vacant retail unit in High St, Oxford leaving our offices in Cardiff as the only vacant property in our portfolio.



Delivering against our strategy

Sector balance

The sector balance in our portfolio is now, by valuation:	2022 %	2021 %	2020 %	2019 %	2018 %
Warehouse	45	45	46	42	39
Retail warehouse	27	28	26	27	33
Leisure	13	12	12	14	9
Office	10	9	9	9	9
High street retail	5	6	7	8	10
Total	100	100	100	100	100

Our aim to reduce our exposure to the high street continues as we consider that, with a few exceptions, there is limited growth in this sector.



Operating review continued

Looking forward by incoming chief executive Paul Leaf-Wright

Introduction

It has been great to be welcomed in as chief executive of Highcroft from 1 January 2023 and to work alongside Simon Gill and Roberta Miles as executive directors. Simon will resign from the board on 31 March 2023, and I am pleased to report that the handover is well progressed.

Highcroft has a well-established property portfolio and business plan, and my aim is to continue on its path of delivering a sustainable dividend flow to shareholders.

In February 2023, we sold the Llantrisant property for £7.85m, being £1.1m above the 31 December 2022 external valuation. Given that the lease was due to expire in March 2024, and the tenant had already vacated, this was an excellent outcome for the company. The annual rent payable of £805,011 represented an attractive 11.6% yield on the original cost and being able to exit above carrying value and cost means the asset value was also protected.

We are focussing on finding suitable new investment for these funds, which we hope to do in the short term so that we can generate rental income for the remainder of the year.

The portfolio is in good shape, with only one vacancy being the Cardiff property, following its refurbishment and improvement during the year. We are currently working on ensuring the best possible asset management result for this asset.

Our year-end gearing remained conservative at 36% and the next facility letter renewal is not due until 2026. Further to our last facility renewal in May 2022, which resulted in a lower

weighted average loan interest rate for the group, we have been well protected against the increases in interest rates experienced over the last few months. Our aim is to keep gearing at around these levels and, hopefully, when time comes for new facilities or facility renewals, the base rates will have declined from their current moderately high levels. This is, certainly, what the current economic forecasts would seem to indicate.

The team

Roberta Miles as finance director is a great support and has established very good systems and controls to ensure the highest possible standards of accounting and reporting, especially considering Highcroft is a fairly small company. She is well supported by Anne-Marie Palmer as company secretary and by Alison Henley as financial accountant.

In changing roles, we have appointed Cube Asset Management Limited (Cube) as property advisers. They have a small team and will focus on the portfolio composition, sustainability, tenants, leases and repairs/maintenance of the properties.

This move gives the company access to a broader, focussed team to assist in looking after the property portfolio. All decisions relating to the properties will continue to be made by the board, but we will benefit by having access to the skills and advice of the whole Cube team.

This restructuring of roles has been achieved without increasing the cost base of the group.



Corporate governance

The company has well-documented policies and procedures and these are controlled and implemented by both the board and management.

Whilst Highcroft is a small company, we strive to ensure the highest possible standards. Through the use of external service providers, such as property managers, lawyers and auditors, we are able to extend our reach and depth of controls.

Key areas of compliance where there is strong focus are financial reporting, meeting bank covenants and REIT criteria and ensuring that we follow best practice with our ESG policies.

The year ahead

The challenge will be to, firstly, invest the group's cash reserves into quality, income-producing assets. One of these will be the development of the land parcel we have in Cornwall for a distribution-company-tenanted warehouse. We are well advanced with the negotiations for all the agreements for this; including an agreement for lease with the potential tenant. Construction is expected to complete in H1 2024 and will cost around £4.3m. This will add a £4.3m, brand-new asset to the portfolio. With other cash resources, we aim to buy one or two other properties to ensure we are fully invested as soon as practicable.

Currently, all acquisitions will be funded with cash and no new gearing will be sought as it is our view that borrowing rates are too high to effectively add any value to the investment case. Should rates reduce over time, or a specific investment opportunity arise, this will be revisited and suitable gearing can be introduced. We have additional capacity within our existing facilities with Handelsbanken plc.

On behalf of the company, I would like to thank Simon Gill for all his input over the past years and wish him all the best for the future.

Paul Leaf-Wright

Chief executive
27 March 2023



Financial review

Roberta Miles

Finance director



Overview

	2022	2021
Profitability		
Net rental income	£5,275,000	£5,258,000
Adjusted earnings per share	62.9p	56.7p
IFRS (loss)/profit for the year	(£7,116,000)	£11,944,000
Net admin expenses to gross rent	21.2%	19.6%
Investment returns		
Net asset value per share	1,081p	1,275p
Dividend payable per share	56p	55p
Total shareholder return	12.7%	29.6%
Return on equity	(11.6)%	19.4%
Financing		
Net debt	19,994,000	21,485,000
Net debt to property value	26%	25%
Average cost of debt at the year end	3.06%	3.1%

The group has, again, shown resilient performance during 2022, a year dominated by the conflict in Ukraine, the legacy effects of the Covid-19 pandemic, political uncertainty and the high inflationary pressures at the end of the year. Against this backdrop, our gross rental income fell by 5% as a result, primarily, of a combination of the negative effects of voids and our 2021 property disposal offset by positive

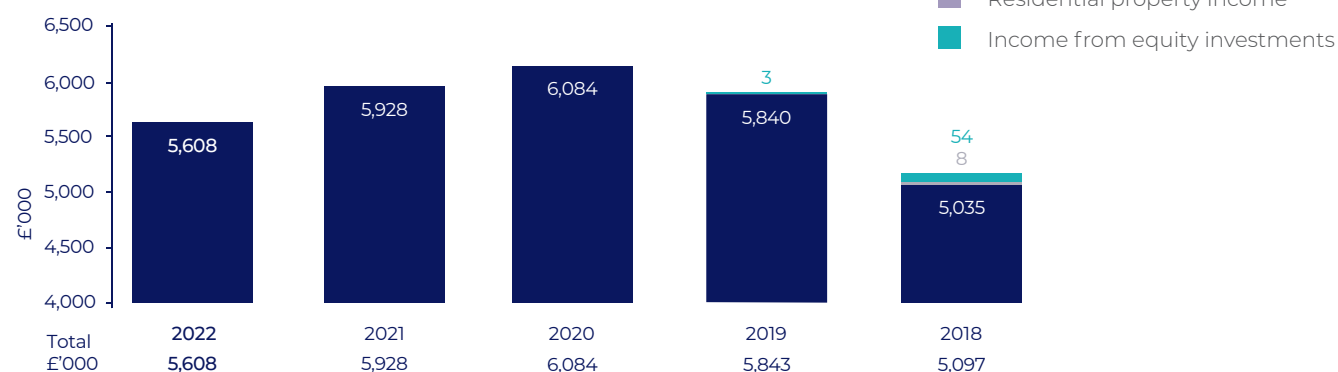
asset management activity. Property operating expenses fell significantly by £337,000 to £333,000. These costs comprised property costs arising from our ongoing asset management, costs arising from our void properties, and a bad debt charge of £31,000. Costs in 2021 included a one-off provision of £174,000 for dilapidations expenditure, which were mostly funded by the one-off income from the tenant. Our administration expenses increased in the year by 2%, with director and staff costs increasing in line with the additional internal work required, offset by a small reduction in external professional fees. Our underlying adjusted revenue profit before tax (excluding revaluation gains and gains on disposals) remained stable at £3,283,000 (2021 £3,243,000). The one-off taxation charge of £304,000 in 2021 arose from the reduction of our PID pool by £1.6m made under HMRC concession as a result of the Covid-19 pandemic.

Net assets have decreased by 15% to £56,176,000 and we have a low net-debt-to-property value of 26%. The average cost of debt at the year end is 3.06% with the reduction in interest payable arising in the year due to the refinancing of one loan during the year at a lower rate than the expiring facility. Our investment properties decreased in value by £10,381,000 (11.8% on a like-for-like basis).

We are proposing a final dividend for 2022 of 33p per share giving a total dividend for 2022 of 56p per share, an increase of 2% from the 2021 dividend of 55p per share. Since 2009 (our first full accounting year as a REIT), our dividends have risen by a total of 115% – a compound annual increase of 6.1%. In the same period, our net assets per share have increased by 62% from £6.66 to £10.81 per share.

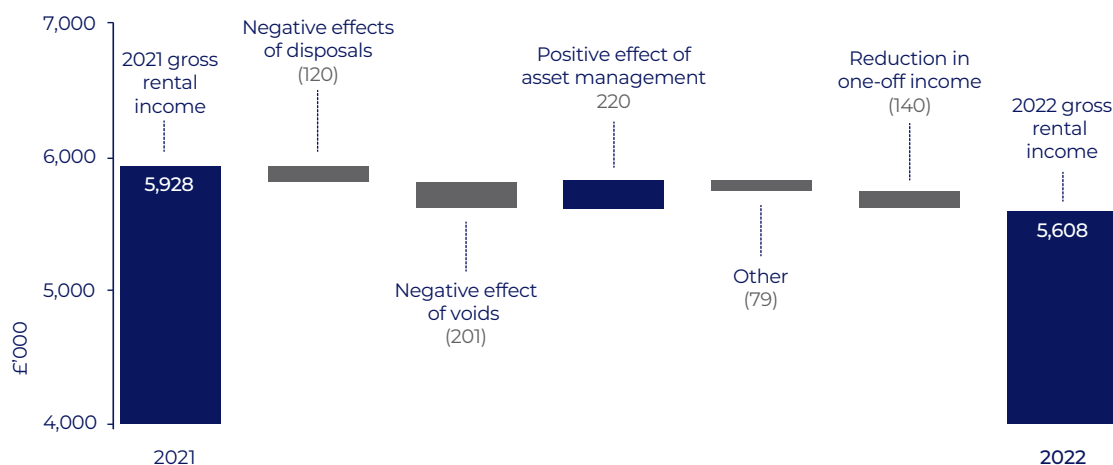
Income

Total income has decreased by 5%.





Our 2022 performance was resilient during a turbulent year



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

	2022 %	2021 %	2020 %	2019 %	2018 %
(Decrease)/Increase in gross rental income	(5)	(3)	4	16	6

Administration and other expenses

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Directors' remuneration	877	837	801	597	541
Auditor's remuneration including other services	70	64	58	35	32
Other expenses	244	263	210	194	163
Administration expenses	1,191	1,164	1,069	826	736
Net finance expense	801	851	892	850	699
Total expenses	1,992	2,015	1,961	1,676	1,435

Director's remuneration rose by 5%, primarily, due to four years of the share element of the Highcroft Incentive Plan being expensed in the year (2021 three years), and an increase in base salaries for the board offset by the reduction in remuneration for the new non-independent, non-executive director. More detail can be found in the directors' remuneration report on pages 72 to 83. Other expenses have reduced by 7% as a result of reduced professional costs associated with our status as an associated undertaking of Kingerlee Holdings Limited and a reduction in recruitment fees. We added a part-time company secretary to our small team in October 2021, to strengthen our internal governance and improve the robustness of our organisation, and 2022 includes a full year of that cost. Net finance expenses decreased as a result of a part year's saving arising from our £7,500,000 loan refinancing in May 2022, when the new fixed interest rate was lower than that on the maturing loan.

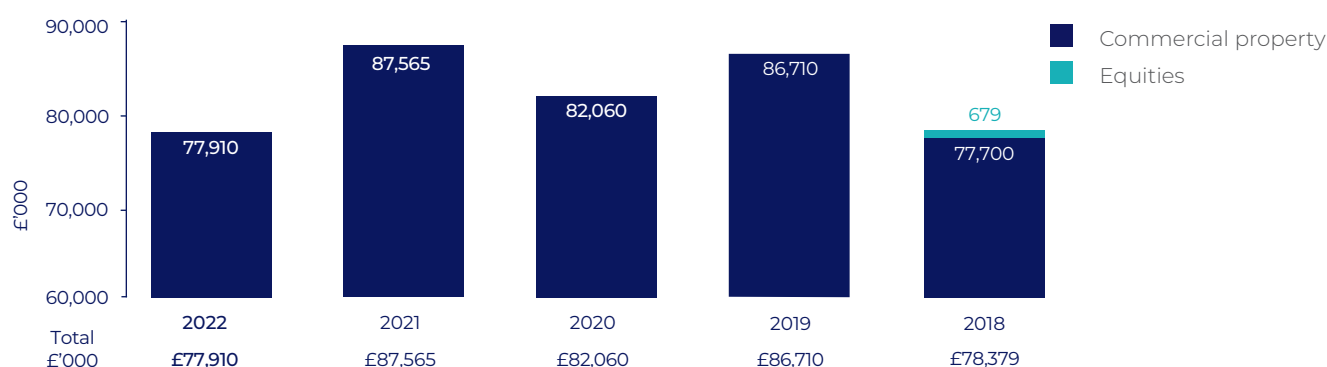
Financial review continued

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

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Profit before tax	3,283	3,243	3,503	3,983	4,445
Income tax (charge)/credit	(18)	(304)	–	72	67
Profit for the year	3,265	2,939	3,503	4,055	4,512

The increase in the revenue profit for the year in 2022 of £326,000 was the result of an increase in net rental income of £17,000, a decrease in net finance expenses of £50,000, a decrease in tax charge of £286k offset by an increase in administration expenses of £27,000. The tax charge in 2021 arose from the adjustment to the 2019 PID pool made in 2021 using the HMRC Covid-19 concessions.

Investments



Our investments decreased, primarily, due to valuation losses net of additions. There were additions at two of our assets related to improvements at our Cardiff property and pre-development work at our asset at St Austell. There were no disposals in the year.

Summary of property investment activities

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Additions at cost	726	–	–	11,898	5,226
Net proceeds from disposals	–	(3,500)	–	–	(6,090)
Net investment/(divestment) into/(from) the property portfolio	726	(3,500)	–	11,898	(864)

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:

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Realised gains on investment property	–	250	–	–	967
Revaluation gains on investment property	605	9,925	2,525	739	2,600
Revaluation losses on investment property	(10,986)	(1,170)	(7,175)	(3,627)	(2,116)
Net revaluation gains/(losses)	(10,381)	8,755	(4,650)	(2,888)	484

Overall, our property portfolio decreased in value during the year by £10,381,000, which represents -11.8% on a like-for-like basis. Our most significant revaluation gain related to our Llantrisant property, which increased by 8% during the year and was sold in February 2023 for a further 16% gain. The most significant revaluation losses were in some of our high street retail and industrial assets, where a move in market sentiment has resulted in a reduced valuation. The revaluation movement is summarised by class of asset in the following table.

Valuation gains and losses by type	Valuation movement	Movement to opening valuation plus additions
Office	(644,565)	-7.8%
Industrial	(5,206,113)	-13.0%
Retail	(905,000)	-18.2%
Leisure	(875,000)	-8.1%
Retail warehouse	(2,750,000)	-11.3%
	(10,380,678)	-11.76%

Financing and cashflow

Net cash generated from operating activities was £1,624,000 higher at £5,126,000. This increase arose from a £1,255,000 decrease in working capital requirement, a £50,000 reduction in net finance expense, an increased profit from operations before changes in working capital of £14,000 and a decrease in tax paid of £304,000. It is the directors' intention to reinvest surplus cash, that is not required for PID payments, into the commercial property portfolio when suitable opportunities arise.

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Opening cash	5,715	3,295	1,559	5,202	1,904
Net cash from operating activities	5,126	3,502	3,220	3,560	3,620
Investment acquisitions – property	(726)	–	–	(11,898)	(5,226)
Investment disposals – property ¹	–	1,925	–	–	6,090
Investment disposals – equities	–	–	–	724	1,333
Dividend paid	(2,909)	(3,007)	(2,484)	(2,829)	(2,519)
Net new bank borrowings	–	–	1,000	6,800	–
Closing cash	7,206	5,715	3,295	1,559	5,202

¹ For 2021, net of proceeds of £1,575,000 transferred into a deposit given as bank security and included in other receivables in Note 10 to the consolidated financial statements. The secured deposit was released in April 2022 and this movement in working capital is included in the decrease in working capital requirement in 2022.

Analysis of borrowing

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Handelsbanken term loans 2030	5,000	5,000	5,000	–	–
Handelsbanken term loans 2029	14,300	6,800	6,800	6,800	–
Handelsbanken term loan 2027	4,500	4,500	4,500	4,500	4,500
Handelsbanken term loan 2026	3,400	3,400	3,400	3,400	3,400
Handelsbanken term loan 2022	–	7,500	7,500	7,500	7,500
Handelsbanken term loans 2020	–	–	–	4,000	4,000
Total debt	27,200	27,200	27,200	26,200	19,400
Cash	(7,206)	(5,715)	(3,295)	(1,559)	(5,202)
Net debt	19,994	21,485	23,905	24,641	14,198
Net assets	56,176	66,117	57,121	60,721	62,384
Gearing (net of cash)	36%	32%	42%	41%	23%

Our weighted average cost of total debt is 3.06% (2021 3.13%).

Outlook

We believe that the quality of our assets, our ongoing asset management programme, and spread of sector risk, all combined with our concentration of assets in the south of England and Wales, means that we are in a strong position to deliver a secure dividend return to our shareholders.

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

Approved by the board and signed on its behalf by:

Roberta Miles

Finance director
27 March 2023

Our risks

Risk framework

The company has a well-established risk management and internal control framework. The board has overall responsibility for risk management with a focus on determining the nature and extent of exposure to principal risks the group is willing to take in achieving its strategic objectives. The amount of risk is assessed in the context of the core strengths of our business and the external environment in which we operate.

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



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

At the point any key strategic decision is taken, the potential risks are considered. Effective risk management is an important part of our board decision-making process. All directors are kept up to date with key issues on, at least, a monthly basis. The small size of the management team and regular consideration of risk areas means we can respond quickly to changes in the risk environment.

The principal risks that have been identified, and the management and/or mitigation of these, are set out on pages 39 to 43. The board has identified that emerging risks are likely to be linked to our existing principal risks and these are also included, as appropriate, in the table on pages 40 to 43.

Against the backdrop of economic and political challenges due to the continued impacts of the conflict in Ukraine, the legacy impacts of the global Covid-19 pandemic, high inflation, and high interest rates in the UK, we have continued to actively manage our risk exposure by maintaining a high occupancy across our portfolio and an efficient capital structure and liquidity position.

Risk appetite

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

Changes to our principal risks

The principal risks and uncertainties that faced the group in 2022 are set out on pages 40 to 43, together with the mitigating actions and controls in place. We define a principal risk as one that is currently impacting on the group or could impact the group over the next 12 months. These principal risks are not a complete list of all risks facing the group, but are a snapshot of the group's risk profile as at the date of this report. In order to manage our risks more effectively, we have made a slight modification to their titles as follows:

	2021	2022
Risk 1	Macro-economic outlook	Macro-economic and political outlook
Risk 2	Political and regulatory outlook	Regulatory and compliance burden

New principal risks or new factors affecting existing principal risks

The ongoing conflict in Ukraine affecting the macro-economic outlook

The conflict in Ukraine does not directly affect our business, which is focused in the UK. However, the overall UK economy, which includes our tenants' supply chains and their customers, is potentially adversely impacted. In particular, the significant rise in energy costs arising from the conflict affects our tenants' cost-base and the availability of discretionary spend by their customers.

The political environment and high inflationary and interest rate pressures in the UK affecting the macro-economic outlook

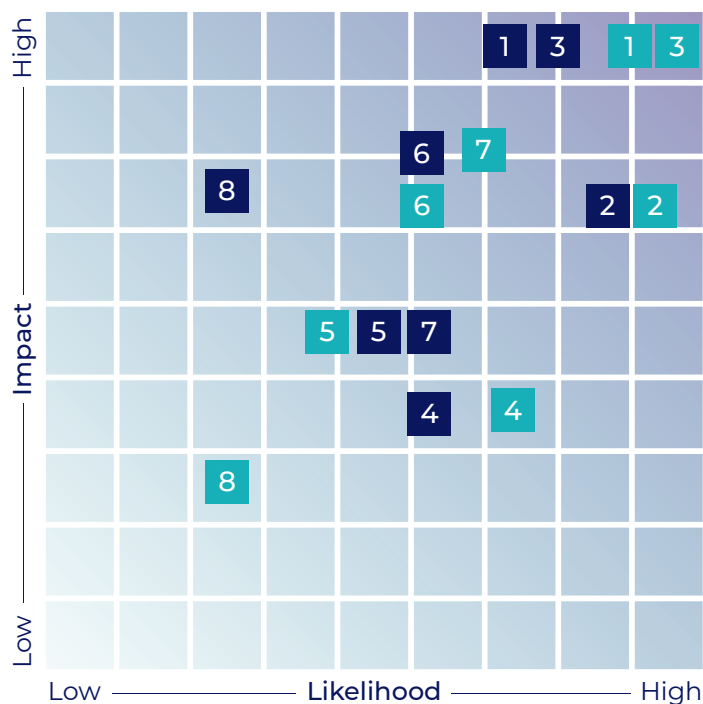
In the second half of 2022, the changes of prime minister, and the negative effects of the mini-budget in 2022 and the subsequent quick-fire policy reversals, created uncertainty in the UK and a widespread negative response. The mini-budget was delivered against the backdrop of a cost-of-living crisis and was followed by a sharp fall in the value of sterling against the US dollar. The subsequent leadership change has not yet restored the desired economic stability. Interest rates continued to rise with a total of eight increases in 2022. UK Corporation Tax is also due to rise to 25% in Q2 2023.

The group is sheltered from interest rate rises as its debt is long term and on fixed rates with the next maturity in 2026. It is also sheltered from corporation tax rises due to its REIT status. The major effect of these changes is on all our stakeholders – particularly our tenants and their customers.

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

Risk heat map

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



Principal risk key

Link to strategic objectives

External risk

1	Macro-economic outlook including Covid-19	A B E
2	Political and regulatory outlook	A B E
3	Occupier demand and tenant default	A B E
4	Commercial property investor demand	E
5	Availability and cost of finance	D E

Internal risk

6	Business strategy	A B C D E
7	Key personnel	A B C D E
8	Sustainability	A B E

As at 28 March 2022

As at 27 March 2023

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 manage our commercial property portfolio with a bias towards the south of England and Wales
- B** Increase the average lot size to £4m-£5m with no asset representing more than 15% of the portfolio
- C** Seek capital growth opportunities within our property asset base
- D** Use medium-term gearing at a modest level
- E** Provide a good dividend return

 Read more about [our strategy](#) on pages 24 to 27

Our risks continued







Principal risk	How we manage/mitigate the risk
External risks	
1 Macro-economic and political outlook The UK economic climate, any further adverse consequences of the conflict in Ukraine, the rise in UK interest rates and in the cost of living, present both risks and opportunities in the property and associated financial markets. This could impact the delivery of our planned revenue and capital strategy.	<ul style="list-style-type: none"> ➤ Monitoring of both political strategy and economic and property industry research by the executive team and review at board meetings, and adjustment of strategy as necessary. ➤ Our activities are restricted solely to the UK with no foreign exchange exposure. ➤ Use of advisers, as appropriate, when considering key transactions. ➤ Ongoing review of tenant, asset and sector profile.
2 Regulatory and compliance burden There is an ever-increasing regulatory burden both as a listed entity, a property company and as a REIT.	<ul style="list-style-type: none"> ➤ We use our company secretary and our advisory team to ensure that the board remains up to date with the evolving regulatory requirements for a listed real estate company. ➤ We use a board portal to enhance our governance communication, systems and procedures.
3 Occupier demand and tenant default Further weakening in the UK economy, reduced consumer confidence, business activity and investment could result in tenant administration/CVA and reduce income, rental growth and capital performance.	<ul style="list-style-type: none"> ➤ We review market data and industry trends with our advisers, to assess whether any risk-mitigating steps need to be taken. ➤ Our strategy is to invest in the lower-risk areas of the south of England and Wales. ➤ Our strategy to invest across different sectors reduces our exposure to an individual sector or tenant. ➤ We maintain close relationships with our tenants and support them through their business cycle. ➤ We review the managing agents rent collection reports regularly and take action, where necessary.
4 Commercial property investor demand Any drop in, amongst other things, 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.	<ul style="list-style-type: none"> ➤ We review market data together with industry trends with our advisers, to assess whether any risk-mitigating steps need to be taken.
5 Availability and cost of finance and debt covenant requirements Bank of England monetary policy may result in interest rate rises resulting in future increased costs of borrowing. Reduced availability of appropriately priced finance would affect our ability to refinance debt and/or increase cost. Breach of debt covenants could trigger loan defaults and require repayment of facilities.	<ul style="list-style-type: none"> ➤ The board aims to only assume a moderate level of gearing, thereby increasing the likelihood of being seen as an attractive banking proposition for lenders. Our preference is for fixed-interest, non-amortising debt with a spread of maturity dates. We monitor our LTV and debt requirements and maintain good long-term relationships with our current and potential financing partners.

Commentary	Change in risk assessment in the year	Link to strategic priority
<p>During 2022, the economic environment in the UK deteriorated significantly, as notwithstanding the lessening impact of the Covid-19 pandemic, the political turmoil in the UK and associated policy changes, negatively impacted the economic outlook. Interest rates in the UK are now, relatively, high and inflation continues to be in excess of 10%. There remains a level of uncertainty regarding the future outlook.</p> <p>Our property valuations have fallen as a result of the downturn in market sentiment during the second half of 2022.</p> <p>In 2023, we will continue to carry out our control, management and mitigation procedures.</p>		<div data-bbox="1297 548 1425 584">A B E</div>
<p>Listed real estate company compliance requirements continue to increase.</p> <p>In 2022, in considering the replacement process for the chief executive, we decided to outsource part of the existing holder's responsibilities to a team of property specialists, leaving only the core chief executive responsibilities in-house. We believe that this will help broaden the depth of skills available to the company.</p>		<div data-bbox="1297 869 1425 904">A B E</div>
<p>After the sale of our Llantrisant property in February 2023, we now have 20 properties with 28 tenants and 25 individual covenants. At the year end, one of our properties is void representing 6% of the annual rent roll. Our bad debt charge for the year is £31,000, which represents 0.6% of gross rental revenue.</p> <p>The weighted average lease expiry is five years, which provides a reasonable longevity of income. In investing the proceeds from the sale of the property in February 2023, we will seek to increase the average lease expiry.</p> <p>In 2023, we will continue to carry out our frequent reviews and controls.</p>		<div data-bbox="1297 1115 1425 1151">A B E</div>
<p>During 2022, in the light of the worsening macro-economic situation, the property market worsened and transaction rates reduced. Our portfolio reduced by 11.8% on a like-for-like basis compared with the MSCI all property result of 14.2% decrease.</p> <p>In 2023, we will continue with our current controls and will look to take opportunities to invest or divest at particularly opportune points in the property cycle, as we did in February 2023 with the sale of our Llantrisant property for in excess of the year-end valuation. More details on page 26.</p>		<div data-bbox="1297 1458 1334 1494">E</div>
<p>During 2022, we refinanced a £7.5million facility at a lower interest rate than the expiring facility, generating annual savings of £17,000.</p> <p>Our next loan maturity is in August 2026.</p> <p>If we wish to draw additional debt, we have pre-agreed headroom of £7.8m, subject to terms and security, and this includes a £1 million overdraft facility.</p> <p>In 2023, we have carried out our annual review with our current lender and will continue to conduct our monitoring procedures.</p>		<div data-bbox="1297 1711 1378 1747">D E</div>

Our risks continued

Principal risk	How we manage/mitigate the risk
Internal risks	
6 Business strategy If the group has the wrong strategy for the current stage of the property cycle and the macro-economic climate, there will be reduced profitability and capital values.	➤ Our strategy is determined to be consistent with our stated risk appetite of low, and is based on our evaluation of the macro-economic environment. Individual investment or divestment decisions are made by the board and subject to a risk evaluation.
7 Key personnel A number of critical business processes lie in the hands of a few people. Failure to recruit, develop and retain staff and directors with the right skills and experience, may result in significant underperformance, or impact the effectiveness of operations and decision making, in turn, impacting business performance.	➤ Remuneration packages are reviewed annually to ensure that the group can retain, motivate and incentivise key staff. We outsource a number of key routine processes to minimise the risk of business interruption. Succession planning and the composition of the board are regularly reviewed by the nomination committee, and the board reviews the key advisers, at least, annually. Future recruitment may require the use of a head hunter to source candidates with the appropriate skillset.
8 Sustainability If the group fails to address climate-related risks in the short, medium and long term, the company's assets and its licence to operate could be challenged.	➤ Sustainability is considered as part of our risk discussions at all board meetings and in all our investment processes.



	Commentary	Change in risk assessment in the year	Link to strategic priority
	<p>During 2022, a year still dominated by the global pandemic, our capital performance was close to the market and our rent collection was 100%.</p> <p>In 2022, we held our annual strategy away day to discuss the group's five-year strategy, monitor our portfolio for further asset management activities and manage the void rate, examine opportunities for acquisitions and disposals to recycle capital, and consider all risks facing the business.</p>		
	<p>In 2022, we considered our approach to the replacement of Simon Gill as chief executive. In order to reduce risk, it was agreed that the duties of the current role would be split, the property management aspects would be outsourced, and the pure chief executive aspects would be condensed into a smaller role. Paul Leaf-Wright joined the board on 1 January 2023 as chief executive in this newly-defined role.</p> <p>The remuneration policy has been reviewed by the remuneration committee and a new policy has been proposed that is more proportionate to Highcroft's size and the nature of its business.</p>		
	<p>Our EPC assessment and improvement strategy is in the initial phase of its implementation. Construction at St Austell will be to a BREEAM 'very good' standard of specification and we incorporated certain sustainable features such as LED lighting, cycle spaces and showers during our Cardiff office refurbishment. Further details are available on page 49.</p>		



Our risks continued

Viability statement

Assessment of viability

In accordance with provision 31 of the Code, the directors have assessed the viability of the group over a longer period than the 12 months required by the 'going concern' provision. The board conducted this review for a period of five years to coincide with its detailed review of the group's financial budgets and forecasts. The period is consistent with the periods until the next lease event on many of our properties, and includes the dates of expiry of our next two expiring term loans, which represent 29% of our total debt. This five-year period is considered to be the optimal balance between the long-term strategy of delivering sustainable income and capital growth, and the fact that property investment is a long-term business, counterbalanced by the inherent uncertainties involved in medium to long-term forecasting in an industry that has been cyclical in nature.

The board, in conjunction with the audit committee, carried out a robust assessment of the principal risks and uncertainties facing the group, including those that would be a major challenge to its resilience by threatening its business model, strategy, future performance, solvency, or liquidity over the five-year period. This review provided the board with assurance that the mitigations and management systems are operating as intended.

The board receives regular, at least monthly, briefings from the executive team, which include rent collection data, portfolio updates, including tenant discussions, debt covenant measures and a review of the principal risks and any adverse movements in risk exposure. A detailed paper is presented to the board at each board meeting on matters affecting viability and going concern.

The board considered the group's cashflows including the required cashflows to meet the dividend requirement of the REIT regime, REIT compliance, income profile, loan

to value and other key financial metrics. The board has also considered the level of property capital transactions that are likely to occur and noted that no loan facilities are due to expire until 2026 and that there is headroom with Handelsbanken to draw an additional £7.8m of debt subject to terms and security.

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

- A 10% drop in income during the forecast period;
- A 20% increase in our proposed capital expenditure programme; and
- An increase in the assumed forecast inflation rates of 5%.

The board has noted that the BEIS consultation has proposed the introduction of a resilience statement in future periods and that they will not be proposing to adopt this proposal earlier than required. In assessing the viability of the business, they have considered the material challenges to reliance over the short, medium and long term, and will report more fully on this as best practice evolves.

Viability statement

Having considered the forecast cashflows, covenant compliance, and the impact of the sensitivities, the directors confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2027.



Going concern statement

Assessment of going concern

The directors have assessed the group's ability to continue as a going concern. This includes a review of the continuing uncertainties created by the conflict in Ukraine, the legacy effects of the Covid-19 pandemic, and the current political climate and high inflation environment in the UK, particularly as these impact rental income, the group's cash resources, borrowing facilities and dividend distributions.

The group's business activities, together with the factors likely to affect its future development, performance and financial position are set out in the strategic report. The financial performance of the group for 2022, including its cashflows, liquidity and borrowing facilities, are set out in the financial statements with additional information in the financial review on pages 34 to 37. Note 18 to the accounts on pages 112 to 113 includes information on the group's financial instruments and on its approach to credit and liquidity risk.

At 31 December 2022, the group had £7.2m of cash and cash equivalents and fixed-term, fixed-interest, non-amortising borrowing of £27.2m, which expires during the period August 2026 to July 2030, an undrawn overdraft facility of £1m and additional headroom of £1.8m. As described on page 26, the group completed on the sale of one of its property assets in February 2023 with gross cash proceeds of £7.85m. The first facility maturity is in August 2026 for £3.4m. The group has a modest gearing of 36% and its net debt to investment property valuation is 26% at the year end.

During March 2023 the group finalised its annual review with Handelsbanken plc. The group now has approved headroom limits up to an increased total of £35m of which £27.2m are currently drawn. The £7.8m of undrawn headroom limits can be used, subject to terms and security for short-term or longer-term funding requirements.

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

The group has a secure property income stream from 28 tenants with no undue reliance on any one tenant. We have been unable to secure a new tenant for our refurbished and improved Cardiff property, for which the lease ended in June 2021. Based on this experience, the board has carefully reviewed its forecast assumptions regarding potential void periods and lease incentives at break dates and lease ends. In addition, we have one tenant with whom we are in an ongoing arrangement regarding their arrears position and where we had to take further action to recover the sums owed to us. Notwithstanding the fact that Covid-19 pandemic has eased in the UK, and that the Ukraine conflict does not directly impact our assets, which are all in England and Wales, there remain uncertainties arising from supply chain issues, due to the pandemic and the Ukraine conflict, and from the high inflation rates in the UK economy.

These uncertainties may affect our tenants' ability to carry on their normal business and generate cash to pay their rent. We have taken this into account in our sensitivity analyses.

The group's most significant outflows are its PID and bank interest payments, which made up 56% and 16% of the 2022 cashflow respectively.

The directors have reviewed the projected cashflows of the group and its compliance with debt covenants. They have also overlaid their best estimates of the impact of global impact of the conflict in Ukraine, the legacy effects of the Covid-19 pandemic, and the current political uncertainty and the high inflation rates in the UK onto their forecasting and debt covenant reviews and considered scenarios, including:

- Rent collections reducing in the forecast period, affecting cash generation and covenant compliance
- Void properties and those that may become void at lease end and/or break dates remaining void for a longer than usual period, thereby reducing income and increasing costs
- Property valuations reducing, adversely affecting the related debt covenants

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

The audit committee reviewed the analysis on page 100, supporting the going concern basis of preparation of the accounts. This review included the forecast 12-month cashflows, headroom on debt covenants, undrawn loan facilities and the quality and parameters of the stress testing. Having completed their review, the committee recommended to the board that it was appropriate to adopt a going concern basis.

Going concern statement

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

Stakeholder engagement

Charles Butler

Chairman





Section 172(1) statement

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




- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct
- the need to act fairly between members of the company.

The nature of our business means that we have an ongoing dialogue with a wide group of stakeholders, as summarised below. During the year, the board has directly engaged with shareholders and some of our suppliers, and regularly monitors stakeholder engagement to ensure they are cognisant of key stakeholders' main concerns and interests. The relationships built, and information obtained through regular engagements with these stakeholders, provides relevant input for decision making and promotes the long-term sustainability of the company.

Stakeholder	Why is it important to engage?	Ways we engage	Key interests	How do we respond?
Our shareholders 	In order to understand the views and aspirations of shareholders as the owners of our business	Direct and indirect shareholder engagement via the annual report, shareholder meetings and calls with our two main shareholder groups. We also seek all shareholders' views via our website and at the AGM. Further details on page 62	<ul style="list-style-type: none"> ➤ Growth strategy and healthy returns whilst evolving our sustainability strategy and initiatives 	<p>Following the 2022 AGM, a meeting between board members and the significant shareholders was held in July.</p> <p>Outcomes: This in-person discussion meant we were able to fully understand shareholder motivations, receive input on strategy and direction of the company, and strengthen our regular dialogue with shareholders in the following months.</p>
Our tenants 	In order to have the ability to react swiftly to issues and opportunities and to understand how tenant demands are changing to help us evolve our strategy	We build relationships with tenants, directly if possible, and also via our asset managers	<ul style="list-style-type: none"> ➤ Tenant satisfaction, with fit-for-purpose spaces that are able to evolve with their business ➤ Ability to meet future tenants' needs 	<p>We continued to have regular dialogue with tenants when lease events occurred as well as sustained work with tenants in particular industries following the ongoing impact of the pandemic.</p> <p>Outcomes: We achieved a successful planning application for our development in St Austell, working towards providing a BREEAM 'very good' building. As part of the planning process, we sought input from the prospective tenants. Further details are available on page 49.</p>



Actively managing a range of key stakeholder relationships, recognising that our success and sustainability depends on their involvement and feedback

Stakeholder	Why is it important to engage?	Ways we engage	Key interests	How do we respond?
Our employees 	<p>We recognise the commitment of our employees to our purpose and goals, and help to build our success, and we value the input and insight that all team members can provide</p>	<p>As we only have only two employees outside the board, our engagement is informal</p>	<ul style="list-style-type: none"> Wellbeing Health and safety Personal development 	<p>Please refer to page 62 for information on our approach to workforce engagement under the UK Corporate Governance Code.</p> <p>Outcomes: Informal reviews were held with the employees by a director, who is not their line manager and reported to the board, as appropriate.</p>
Our advisory team and other suppliers 	<p>In order to have a close working relationship with all of our suppliers, making sure we are all committed to the success of the company and that as a business we have the ability to react swiftly to opportunities and issues</p> <p>To ensure we are aware of emerging trends and risks in the marketplace</p>	<p>Building close relationships, where advisers have a detailed understanding of the business, its purpose, culture, and objectives and ensuring there are regular opportunities for dialogue during the year</p>	<ul style="list-style-type: none"> Impact of the wider economic environment Responsible payment terms No conflicts of interest Mutually-beneficial relationships, supporting both parties' interests 	<p>A director took responsibility for each key relationship and ensured that communication and feedback loops were appropriate and effective.</p> <p>Outcomes: During the year, we engaged with several new suppliers as part of the planning process for St Austell, and our close collaboration with them resulted in a successful planning application; we will continue to work with these suppliers this year. The board annually reviews the suppliers that the company engages with to ensure these remain appropriate.</p>
Our local communities and the environment 	<p>We wish to ensure that our activities have a positive impact on communities and the environment</p>	<p>Engagement with local communities to understand the impact of our operations and plans for development</p>	<ul style="list-style-type: none"> Making a positive contribution to communities and the environment through existing properties and future developments Charitable donations (detailed on page 51) 	<p>Quarterly meetings with asset managers, which include environmental matters as an agenda item.</p> <p>Outcomes: During the year we engaged with the local council, regarding our planning application for St Austell. These discussions and input helped to shape and guide our plans for the development.</p>

Sustainability

Paul Leaf-Wright

Chief executive



Our culture

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

Our stakeholders

Our key stakeholders are our shareholders, tenants, employees, advisory team and other suppliers, our local communities and the environment. Our engagement with them and their key interests is set out in our stakeholder engagement statement on pages 46 to 47.

The environment and climate change

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

Streamlined energy and carbon reporting regulations (SECR)

The company has, for the first year, fallen within the scope of being required to report in accordance with these regulations. For further details, please see page 86.

The taskforce on climate-related financial disclosures (TCFD)

In accordance with Listing Rule 9.8.6 (8) requiring premium-listed companies to include a statement in the annual report confirming the extent to which they have made disclosures consistent with TCFD on a comply or explain basis, we have summarised our compliance to date with the TCFD guidelines on the following pages. The board has concluded, based on its knowledge of the company's actual and expected activities, its operating environment and exposure to physical and transition risks, that our disclosures are consistent with TCFD recommendations with the exception of three areas. We are working towards assessing the impact of climate-related risks and opportunities on our business, resilience of our strategy, as well as identifying suitable metrics and targets and we have explained our current approach below. We will work with our newly-appointed property asset managers over the coming months to set appropriate metrics and targets and prioritise the strategic and financial impacts of our most material climate-related issues. This will inform our strategy and ability to manage these risks and opportunities across our business and in turn support our assessment of the resilience of our strategy. Given the current size of our portfolio, we intend to move towards compliance over the next two years.





Our actions over the year have strengthened our progress on climate change and we continue work to evolve our sustainability strategy

TCFD theme	Recommended disclosure	Our approach
Governance	Disclose the organisation's governance around climate-related risks and opportunities	<ul style="list-style-type: none"> ➤ The board is responsible for considering and approving our climate strategy and objectives and, ultimately, for approving the group's climate-change targets and monitoring portfolio performance ➤ The audit committee is responsible, on behalf of the board, for ensuring there is a robust assessment of emerging and principal risks and the board deliberates sustainability matters as part of its regular agenda items.
	Describe the board's oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> ➤ During the year, the board held a separate meeting with the ESG director at Workman LLP, our property-managing agents. The aim of the discussions was to enhance the board's understanding of the risks currently identified within the industry and the opportunities to address these both in the short, medium and long term. This developed the board's ability to actively identify and oversee the climate-related risks and opportunities within the business. The board received regular updates during the year on the initiatives detailed below.
	Describe management's role in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> ➤ Our chief executive remains the main board member with overall accountability for climate and sustainability. The works that took place, during the year, to our Cardiff office asset, and our development plans for St Austell, were overseen by Simon Gill. We continue to work with Workman LLP and now with Cube Asset Management Ltd on prioritising our actions to reduce the impact on the environment of the company's properties, and promoting the health and wellbeing of occupiers and visitors and generating positive social value within the local community ➤ Our development at St Austell has had sustainability at the centre of its plans. We note the work underway to introduce the reporting frameworks around the Taskforce on Nature-related Financial Disclosures and recognise the importance of preserving nature in our operations and developments, as part of our actions to address climate risks. Nature surveys were held on the development site as part of the planning process, to ensure the protection of wildlife. The planning consent required a 25-year biodiversity plan and our approved plans include measures to protect the biodiversity of the sites, with planting areas agreed as part of the development. Our aim remains to construct a BREEAM 'very good' building and will include LED lighting and car charging points.
Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning, where such information is material	<ul style="list-style-type: none"> ➤ The board considers climate change as part of its decision making, particularly around acquisitions and refurbishment projects; as noted the focus, in particular, over the year was on Cardiff and St Austell. As part of its approach to evaluating climate-related risks and opportunities, management and the board, and now in conjunction with our newly-appointed asset managers, continue to assess which of those could have a material financial impact on the organisation.
	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	<ul style="list-style-type: none"> ➤ Short term (0–5 years) – market shift in terms of stricter legislation, such as the introduction in the UK of the new minimum energy efficiency standards (MEES) for commercial and domestic properties ➤ Medium term (5–15 years) – market demand from occupiers for buildings and spaces with higher levels of efficiency and lower carbon footprints ➤ Long term (15+ years) – changing climate conditions in the south east of England and Wales, principally temperature increases and flooding, and their potential impact on our buildings.

Sustainability continued

TCFD theme	Recommended disclosure	Our approach
Strategy	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	<ul style="list-style-type: none"> ➤ As a REIT, we invest in, maintain and manage property in the south of England and Wales and, as such, climate-related issues affect the way we assess properties for acquisition and how we and our tenants develop and maintain existing ones ➤ As part of our assessment of our existing portfolio, we consider the geographical location, access to utilities and other relevant factors when evaluating any climate-related risks and opportunities on properties within our existing portfolio ➤ We are working with our property asset managers on measures to address EPC ratings for particular properties within the portfolio. ➤ The board has agreed that 'sustainability' is one of the company's principal risks as reported on page 43. As a board we recognise that there is some work to be done to fully identify the climate-related risks and opportunities relevant to our business. Our aim over the next two years is work with our asset managers to ensure these are identified and in turn integrated into our strategy and financial planning.
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<ul style="list-style-type: none"> ➤ Physical climate-related risks, such as increasing temperatures, could increase the stresses on our properties and, in turn, increase our cost base and/or make them less attractive to existing, or potential, tenants. We will continue to consider energy and carbon reduction, ensuring that our buildings operate as efficiently as possible ➤ Our work to assess the resilience of our strategy to different climate-related scenarios is evolving. As noted we are working towards undertaking a thorough climate risk assessment to fully analyse our key climate-related risks, the timing around these, and what mitigation measures we have and can put in place, so these can be proactively managed.
Risk management	Disclose how the organisation identifies, assesses and manages climate-related risks	<ul style="list-style-type: none"> ➤ Potential climate-related risks are identified and monitored as part of our wider risk management procedures. We are aware of the UK Government's commitment to a net zero economy by 2050 and continue to consider how, as a business, we can contribute to that being achieved and how we will operate within that economy.
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	<ul style="list-style-type: none"> ➤ Following the decision to recognise the sustainability credentials of the business as a principal risk, during the year, the board held a deep-dive session to consider its current risk appetite and risk management approach, together with a detailed look at its principal risks. It was agreed, as part of that review, that the principal risk be refined to 'sustainability risks'. Our property managers continue to report on climate change as part of their quarterly reporting and the chief executive considers whether any issues arising from this or other matters are material enough to be considered further.
Metrics & targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	<ul style="list-style-type: none"> ➤ The board has agreed to address the EPC ratings of our portfolio, primarily focusing on any properties that fall below the Minimum Energy Efficiency Standards (MEES) to be introduced from 1 April 2023. During the year, the board reviewed the existing EPC ratings across the portfolio, and we are working with Workman LLP on prioritising the actions to be taken in the coming year ➤ As a business, due to our size and the limited amount of carbon emissions that we are able to influence, identifying appropriate targets and measures that will endure remains challenging. We will continue to focus with our new asset managers, Cube Management Limited, on working towards settling on our aims and appropriate measures.

The environment – energy efficiency actions taken during 2022

During 2022, we have continued to ensure that:

- All sites are visited, at least, annually by our property managing agents, and any environmental issues identified are reported to the chief executive immediately, recorded in the property 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 property manager's purchasing policy;
- Our property 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 property managers are committed to operating to an environmental policy and management system that satisfies the requirements of BS EN ISO 14001: 2004 accreditation and as part of which they measure and set targets for improvement;
- We addressed climate change through our planning application for St Austell. Prior to submitting our planning application, extensive ecological surveys were undertaken to ensure the habitat of the local flora and fauna were protected and/or replaced. The consented property will be built to BREEAM 'very good' standard specification involving the latest technology for sustainability;
- Where opportunities have arisen to upgrade and improve the efficiency of our buildings, we have addressed this. At St Mary's House, Cardiff, our improvements included installing upgraded LED lighting systems and the provision of cycle spaces and shower/changing facilities, with reduced car park spaces, to encourage cycling to work;
- The weighted average of the EPCs on 18 of our 21 properties for which we have certificates, remains at a C or above. It is currently 64, which is a C rating. The only change in the year arose from the weighting calculation as relative property valuations moved;
- We continue to adopt a paperless strategy with our shareholders, and utilise our website to update our shareholders where possible; and
- We make recommendations to the landlord of our serviced office for energy savings that could be made.

Fairness and equality

We value the contributions made by all of our employees, including our directors and our advisory team, and believe that a diverse team is key to maximising business effectiveness. We aim to select, recruit and develop the best employees and advisers, and create an environment in which everyone is treated with dignity and respect and in which 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.

Stakeholder alignment

We align our executive management team with our stakeholders via the current Highcroft Incentive Plan and the proposed Highcroft Bonus Plan, the aim of which is to support delivery of strategy and promote long-term sustainable success. More details on the remuneration policy can be found on pages 74 to 78.

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. For details on the diversity of our board and employees, please see page 55.

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 2022, donations continued to be made to local and national charities totalling £12,000. These charities support the sick, terminally ill and disadvantaged. Examples of our support include:

- Contributions towards the funding of palliative care in three hospices, in a day centre, in hospitals and at home;
- Funding towards the support of those with learning disabilities in the local community to help them to live life to the full; and
- Contributions towards national campaigns for support of those who suffer from abuse, neglect, autism and heart disease.

Future focus

In 2023, we will work on evolving our sustainability strategy, and will continue to conduct our business in an ethical and responsible manner. Highcroft will endeavour to find the correct balance between regulation, cost, and the absolute impact of any changes that it is able to influence.

This strategic report on pages 16 to 51 was approved by the board and signed on its behalf by:

Paul Leaf-Wright

Chief executive
27 March 2023

Governance

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Chairman's introduction to corporate governance

Charles Butler

Chairman



On behalf of the board, I am pleased to present the corporate governance report for the year ended 31 December 2022. At Highcroft, our governance framework is embedded with our culture and good governance remains one of our key values. Our strong governance and governance processes have enabled our efficient operations during the year. Whilst we are a relatively small premium listed group, our commitment to maintaining good corporate governance remains essential to the effective delivery of our strategy. Our ability to continue to create value for our stakeholders and ensure the sustainability of our business are supported by our continuing endeavours to act in accordance with the Principles of the 2018 UK Corporate Governance Code and the board and its committees continue to follow the appropriate guidance and rules.

Compliance with the UK Corporate Governance Code

The 2018 UK Corporate Governance Code (the Code) and its Principles have continued to apply throughout the year and supported our discussions and decision making. Throughout the year, as the size of the portfolio and the risks associated have remained fairly even, the board has continued to take a proportionate approach to full compliance with all the provisions of the code. The company, therefore, complies with all principles and provisions of the Code, with the exception of six provisions. The board has concluded that there will be an ongoing consideration of compliance with these provisions but there is no current change anticipated to our approach, based on the explanations set out on page 57.

We will continue to monitor with interest, developments over the coming year on the anticipated FRC consultation on revisions to the Code. For further detail see page 67.

Focus areas for 2022

The board's and committee's primary focus areas of governance and key governance activities included:

- Appointment of a new chief executive
- Shareholder engagement at the 2022 annual general meeting (AGM) and during the year with our significant shareholders
- Welcoming a new non-executive director to the board
- Approving a new code of conduct and a Speak Up policy for our employees and board members
- Supporting the proposal of a new executive remuneration policy to shareholders at the AGM
- Continuing to address our approach and actions to sustainability, both with existing tenants, and for new developments

This governance report, which includes our committee reports gives more detail regarding the major decisions taken during the year, our framework and compliance.

Stakeholder engagement

As detailed on pages 46 to 47 we remain committed to retaining good working relationships with all stakeholder groups and any stakeholder engagement is regularly reported amongst the board.

We were pleased to return to a face-to-face meeting for the annual general meeting in 2022 and currently intend to invite shareholders to an in person meeting this year.

Future focus

The primary board focus for 2023 is continuing to work as a team, supporting our new chief executive and asset managers, as well as ensuring we remained engaged with all our stakeholders.



Strong governance and governance processes have enabled our efficient operations during the year

Board diversity

Our board is composed of highly skilled professionals, all of whom bring a wealth of skills, perspective and corporate experience to our boardroom. The company has a culture that recognises the benefits of all aspects of diversity, including how this can support the development of strategy. There remains a policy of ensuring all aspects of diversity are considered during any recruitment process. Given the small size of the organisation, there is no formal board diversity policy. While we accept that diversity is important, the board do not consider it proportionate, at present, to recruit a new board member to meet the target of having a member from an ethnic minority. Ethnic representation will, however, be borne in mind along with other factors when planning for succession.

Membership of the board

Board and staff gender representation as at 31 December 2022

	Women	Men
Number of board members	1	4
Percentage of board members	20%	80%
Number of senior positions on the board ⁽¹⁾	1	3
Number of staff ⁽²⁾	3	4
Percentage of staff	43%	57%

¹ Senior positions refers to the role of chair, chief executive, finance director and senior independent director.

² As the total number of staff, including non-executive directors, for the company is seven, the disclosures above incorporate all staff members rather than solely the executive management.

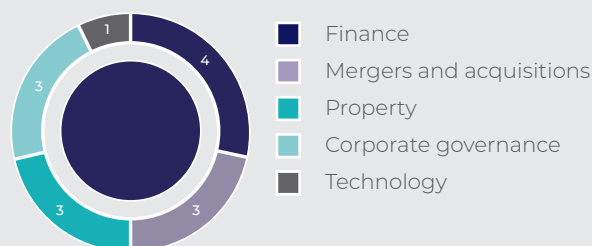
Following the appointment of Paul Leaf-Wright from 1 January 2023, and Simon Gill then stepping down from the end of March 2023, the gender composition of the board will remain as reported from 1 April 2023.

At 31 December 2022, all board members and staff are white British or other White (including minority white groups).

For the purposes of making the disclosures set out above, data was collected through self-reported submissions from the board and employees.

Experience of the board


As at 31 December 2022



Chairman's introduction to corporate governance continued

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

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

Section	Principles	Further information
 1. Board leadership and company purpose	A. Effective board	➤ You can read about the board's effectiveness on pages 61, 22 to 23 and the IFC
	B. Purposes, values and culture	➤ You can read about our purpose values and culture on pages 61, 22 to 23 and the IFC
	C. Governance framework and board resources	➤ Learn more about our governance framework and board resources on pages 60 to 61
	D. Stakeholder engagement	➤ Learn more about our engagement with stakeholders on page 54
	E. Workforce policies and practices	➤ Learn more about our workforce policies and practices on page 62
 2. Division of responsibilities	F. Board roles	➤ You can read about the division of responsibilities on page 61
	G. Independence	➤ Learn more about the board independence on pages 58 to 59
	H. External commitments and conflicts of interest	➤ You can read about the board's other roles on pages 58 to 59
	I. Key activities of the board in 2022	➤ Learn more about the board's key governance activities on page 54
 3. Composition, succession and evaluation	J. Appointments to the board	➤ You can read about the work of the nomination committee on pages 70 to 71
	K. Board skills, experience and knowledge	➤ Learn more about our board on pages 58 to 59
	L. Annual board evaluation	➤ You can read about the board's evaluation process on page 62
 4. Audit, risk and internal control	M. Financial reporting, external auditor and internal audit	➤ You can read about our audit process on pages 63 to 68
	N. Review of the 2022 annual report	➤ Learn more about the review of the annual report on pages 64 to 66
	O. Internal financial controls, risk management	➤ You can read more about our approach to risk management on page 68
 5. Remuneration	P. Linking remuneration with purpose and strategy	➤ You can read about the remuneration policy on pages 74 to 75
	Q. Remuneration policy	➤ Read more on our remuneration policy on pages 74 to 75
	R. Performance outcomes in 2022, strategic targets	➤ You can read about the board's effectiveness on page 61

The board confirms that for the year ended 31 December 2022, the Principles of good governance contained in the 2018 UK Corporate Governance Code have been consistently applied. The company fully complied with all the provisions of the Code, except for six of the provisions and an explanation is provided on the following page. Compliance with the Code is considered regularly throughout the year and board members are kept updated on evolving best practice.

Explanation of compliance with the Code

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 three more independent non-executive directors	The board considers its composition annually as part of the board evaluation process, the findings of which support maintaining the board at its current size. All directors are appointed by shareholders, and there have been no requests from the company's significant shareholders to increase the size of the board to satisfy these particular requirements of the Code. The costs associated with complying with these provisions would outweigh any potential benefits given the small size and lack of complexity of the group. Should the size of the portfolio of the company significantly evolve, consideration would be given as to whether the size of the board remains appropriate
24	Audit committee – the chairman of the board should not be a member	Recruit at least one more independent non-executive director	
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 committee chair	Simon Costa has been chairman of the remuneration committee since joining the board in May 2015. His appointment was made in accordance with the 2014 UK Corporate Governance Code that was applicable at the time. Simon has significant experience from working in the property industry and his proficiency in chairing the remuneration committee is recognised by the board and his continual unanimous re-election by shareholders. The board has concluded that compliance with this provision 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 take this provision into consideration
36	Remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests Share awards should have a total vesting and holding period of five years or more	Amend Incentive Plan and/or remuneration policy	The current remuneration policy was approved by shareholders at the 2022 AGM and was unchanged from the policy approved at the 2019 AGM. The remuneration committee and the board have determined that the existing policy is overly complex for an organisation of Highcroft's size and have, therefore, approved a new remuneration policy designed to continue to support strategy and promote sustainable success. See pages 74 to 78 for further details. Under the new policy there is no shareholding requirement for executives. The committee consulted major shareholders on the proposed policy and no concerns were raised. The existing policy, as reported last year, does not have vesting and holding periods of five years or more, having been agreed by the remuneration committee that this was a disincentive to the executive directors
37	Remuneration schemes and policies should include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so	Amend proposed remuneration policy to include relevant provisions	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 material event that causes the remuneration committee to believe the original metrics, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the remuneration committee believe that the formulaic outcome is not a fair and accurate reflection of business performance As there is no shareholding requirement under the new policy, there are no malus and clawback provisions required
41	There should be engagement of the workforce by remuneration committee	Formal engagement by remuneration committee with employees on executive remuneration	As there are only two employees other than the board, it is not believed that such formal engagement and disclosure thereof would add value to shareholders. Whilst the company remains with this smaller number of employees, informal engagement is deemed more suitable given the close working relationship amongst the team and board. Should the size of the portfolio of the company significantly evolve, and in turn increase substantially the number of employees, consideration would be given as to whether there should be a process of formal engagement

Board of directors

Charles Butler
Non-executive chairman



Appointment to the board

Charles joined the group as non-executive chairman in January 2018. He was considered to be independent upon appointment and is considered, by the board, to have remained independent throughout the year.

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 Best of the Best plc, an AIM listed company providing online competitions; non-executive director of Essensys plc, a global provider of SaaS platforms and on-demand cloud services to the flexible workspace industry; and executive director of Belerion Capital Group Limited, an FCA regulated firm advising high net worth individuals and family offices.

Previous experience/ brings to the board

Charles is a chartered accountant who, prior to joining the board, was the CEO of Market Tech Holdings PLC, where he transformed a small group of central London real estate assets into a profitable, listed company with a £1.3bn portfolio. He has deep industry knowledge – not only in property but also in financial services and technology. With a successful track record in running public companies, M&A, raising equity and debt for expansion, Charles continues to be 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 University Treasurer at the Royal Agricultural University, Cirencester, where his remit includes financial strategy and balance sheet management. Until recently, he was the finance director there, where he oversaw all the financial and related operations of the university.

Previous experience/ brings to the board

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

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

Simon Gill
Executive director



Appointment to the board

Simon joined the group as property director in April 2013 and assumed the role of chief executive in August 2013. He stepped down as chief executive from 1 January 2023 and will remain as an executive director until 31 March 2023 when he leaves the group.

Committee membership

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 has been of huge value to the board since his appointment.

Paul Leaf-Wright

Chief executive



Appointment to the board

Paul joined the group as chief executive from 1 January 2023.

Committee membership

Paul chairs the executive committee.

Other appointments

Paul is chairman of Leaf Capital as well as a non-executive director of some other non-listed company boards.

Previous experience/brings to the board

Paul qualified as a Chartered Accountant in South Africa and has over 40 years of property and financial services experience. He established Leaf Capital in 2004 and is the company's chairman. He also co-founded Atlantic Leaf Properties in 2013, a UK Real Estate Investment Trust that invested, primarily, in industrial assets in the UK. Atlantic Leaf was listed on the JSE (South Africa) and SEM (Mauritius) markets and Paul was its CEO as a listed entity until August 2019. Paul built the portfolio to approximately £400m in assets, when the business was sold to a large private equity company. Under the ownership of the private equity group, Paul remained CEO until June 2022 when all the assets were sold.

Paul previously held various senior roles in South African banking companies, including financial and strategy director, head of treasury, director of property and asset finance and head of wealth management.

Roberta Miles

Finance director



Appointment to the board

Roberta joined the group in April 2010 and was appointed to the board as finance director and company secretary in July 2010. From October 2021, she continued in her role as finance director having relinquished her role as company secretary.

Committee membership

Executive committee.

Other appointments

Roberta 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.

David Warlow

Non-independent non-executive director



Appointment to the board

David joined the board as a non-executive director in August 2022.

Committee membership

None.

Other appointments

David is a director of Kinglerlee Holdings Limited, Kinglerlee Homes Limited, Kinglerlee Limited and T.H.Kingerlee & Sons Limited.

Previous experience/brings to the board

David is a director of Kinglerlee Holdings Limited, a construction and property development group of companies. David represents the interests of the Kinglerlee Holdings Limited which, together with its subsidiaries, has an aggregate beneficial interest of 27.35% in the share capital of the Company and forms part of the Kinglerlee Concert Party. In this role, he does not sit on any board committees.

Key

Chairman

Member

Executive committee

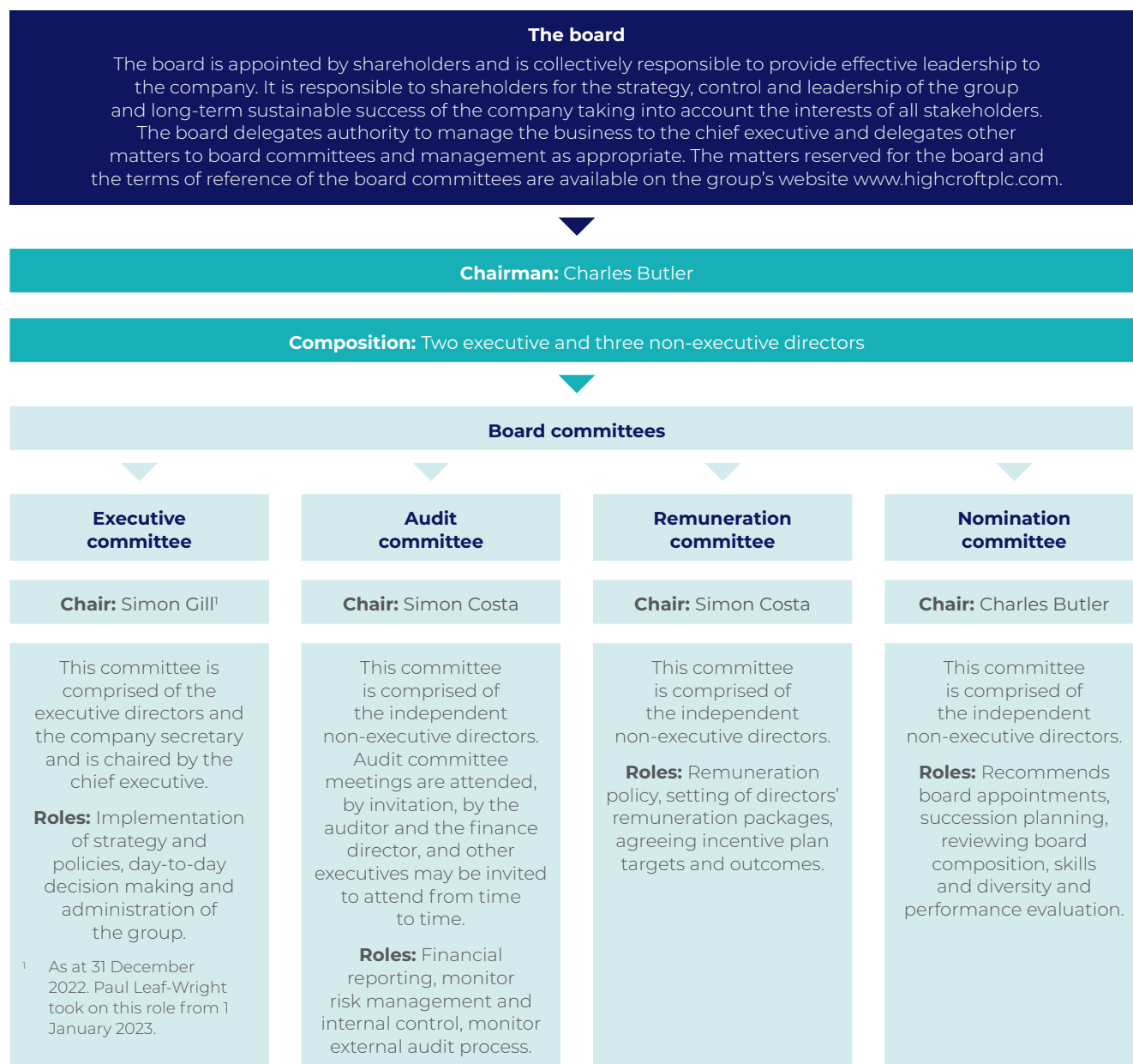
Audit committee

Nomination committee

Remuneration committee

Corporate governance

Governance framework



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

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

Board effectiveness

The board meets at least five times per year focusing on strategic issues, as well as operational and financial performance, risk management and other critical business concerns. There is a formal schedule of matters reserved for its decision. It also approves the terms of reference of all sub-committees and conducts an annual evaluation of the board.

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

	Attendance
Charles Butler	7/7
Simon Costa	7/7
Simon Gill	7/7
David Kingerlee (resigned from 1 August 2022) ¹	3/4
Roberta Miles	7/7
David Warlow (appointed from 1 August 2022) ²	3/3

² David Kingerlee resigned from the Board on 1 August 2022 and was, therefore, eligible to attend four board meetings during the year.

³ David Warlow was appointed from 1 August 2022 and was, therefore, eligible to attend three board meetings during the year.

The chairman of the board, and the chairs of the committees, set the agendas for upcoming meetings with support from the company secretary. The board receives appropriate and timely information, and the directors are free to seek any further information they consider necessary. The directors utilise an electronic board portal, which provides immediate and secure access to current and past papers.

On appointment, an induction programme tailored to their individual needs is available to all directors. Each induction programme would ordinarily include information on the corporate strategy, the financial position and tax matters, an overview of the property portfolio provided by members of the team, visits to key assets, details of board and committee procedures and directors' responsibilities, covering both legal and regulatory requirements, information on the approach to sustainability and of recent stakeholder engagement.

Throughout a director's tenure, they are encouraged to develop their skills and knowledge, which is also considered as part of the board evaluation. Directors are also provided with, and updated as appropriate on, matters such as share dealing restrictions and corporate governance matters. All directors have access to advice from the company secretary and independent professionals at the company's expense.

Division of responsibilities

Chairman

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

Chief executive

- There is a clear division of responsibilities between the chairman and the chief executive.
- Oversees the day-to-day running of the group's business including the development and implementation of the board's agreed strategy.
- Leads the executive team.

Company secretary

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

Non-executive director

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

Senior independent director

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

Corporate governance continued

Workforce policies and practice

As there are only five directors and two employees, there are a limited number of formal policies. During the year, the board approved a new Code of Conduct and a Speak Up policy, ensuring that employees and our other stakeholders are clear on our principles and compliance and reflecting the directors' commitment to make improvements to our governance framework. Everyone is aware of the group's purpose and understands its values. We require all directors to notify the company if there is a situation that could give rise to a conflict or potential conflict of interest, and we ensure that our independent non-executive directors remain independent of executive management and free from any business relationship that might materially interfere with exercise of their judgement. As noted on page 57 as we only have two employees, the mechanisms used by the board to engage with employees is informal.

Board evaluation

Formal procedures appropriate to the size of the business are in use for performance evaluation of the board and its committees. They include objective setting and review with the use of an external facilitator on a periodic basis. During the year, the board conducted a self-performance evaluation by way of a questionnaire, which was facilitated by the company secretary. The questionnaire was designed to evaluate the effectiveness of the board and its committees, as well as identify areas for improvement. The results were discussed by the board and action points created to ensure that any areas needing improvement were prioritised and addressed. Progress against the conclusions of the 2021 review were analysed, noting the matters addressed over the year. The board considered itself to be generally effective in all areas identified in the questionnaire. Areas for improvement were identified, including advancing the formulation of strategy, progressing ESG matters and continuing to strengthen stakeholder engagement.

Relations with shareholders

The board values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The chairman and other directors are available to meet shareholders if required. The AGM provides a forum, both formal and informal, for shareholders to meet and discuss relevant matters with all the directors. Documents are sent to shareholders at least 21 clear days before the meeting. Separate resolutions are proposed on each substantial issue so that they can be given proper consideration, and there is a resolution to receive and consider the annual report and financial statements, and the directors' remuneration report. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution. Full details of the AGM voting are included on the company's website after the meeting. The company has no institutional shareholders but has continued a programme of meetings with key shareholders, subject to regulatory constraints, and the board is provided with feedback from these meetings.

The 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.

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.

At the AGM in May 2022, the proportion of votes cast against the resolution to re-elect David Kingerlee, as a director of the company, exceeded 20%. The UK Corporate Governance Code requires companies to provide an update within six months of an AGM and a summary in the annual report. As reported in September 2022, to better understand shareholder concerns with a view to identifying how such matters can be addressed, the board engaged with its significant shareholders to gain an understanding of their concerns. Since the AGM, David Kingerlee has stepped down as a non-executive director of the company and David Warlow was appointed from 1 August 2022. David Warlow represents the interests of Kingerlee Holdings Limited which, together with its subsidiaries, forms part of the Kingerlee Concert Party. The board continues to engage with significant shareholders on a regular basis.

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

Directors' powers at the year end

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

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

See pages 74 to 75 for information on the proposed remuneration policy.

During 2022, new ordinary shares with a nominal amount of £2,816 were allotted under these authorities in satisfaction of the 2021 awards under the Highcroft Incentive Plan, leaving £57,660 of authorities remaining.

Audit committee report

Audit, risk, and internal control.
Monitoring quality and integrity.

Simon Costa
Chairman



2022 key achievements

- Update of the terms of reference to include enhanced descriptions of the references to the responsibilities connected with risk management, going concern and viability statement processes and ESG responsibilities
- Rotation of audit partner in line with regulation
- Production of ESEF tagged 2021 accounts

Focus areas for 2023

- Consideration of climate change matters, including ESG, internally and in our financial statements
- Adoption of a valuer appointment policy setting out our position on valuer appointment and tenure
- Benchmark review of external audit fees
- Consideration of the government's proposed changes to audit and financial reporting governance following the BEIS consultation

I am pleased to introduce the audit committee report for the year ended 31 December 2022. 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.

Main responsibilities

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

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

Composition of the committee and attendance at meetings

There have been no changes to the membership of the committee during the year. The committee continues to be composed solely of the independent chair of the board and the independent non-executive director. The board is satisfied that they both have sufficient financial experience, commercial acumen and real estate sector knowledge and experience to carry out their duties effectively. Further information about members' qualifications can be found in the directors' biographies on pages 58 to 59. Their attendance at committee meetings is set out below:

Director	Committee position	Date of committee appointment	Attendance
Simon Costa	Chairman	May 2018	5/5
Charles Butler	Member	January 2018	5/5

The committee meets regularly during the year, in line with the financial reporting timetable and, in 2022, met five times for routine business. Roberta Miles, as finance director, attends part of each meeting and the external auditor attends all meetings. The committee has an agenda item at each meeting to discuss business without any executive directors being present.

In addition to the five main meetings, there were also several informal meetings, and general discussions between the committee members and, at times, the finance director and/or the auditor regarding ongoing committee considerations.

The terms of reference were reviewed during the year and are available on the group's website at: www.highcroftplc.com. This review included enhanced descriptions of the references to the responsibilities connected with risk management, going concern and viability statement processes and ESG responsibilities in line with best practice.

Audit committee report continued

2022 calendar

The calendar below gives an overview of the key matters considered by the committee during the year.

Jan 2022	March 2022	May 2022	Sept 2022	Dec 2022
<ul style="list-style-type: none"> Valuation reports, effectiveness and independence of valuer 	<ul style="list-style-type: none"> 2021 draft annual report and accounts and preliminary announcement Review of financial reporting Fair, balanced and understandable assessment Going concern and viability assessments Review of subsidiary reporting External audit report and auditor reappointment Review of committee terms of reference Review of requirement for internal audit function 	<ul style="list-style-type: none"> AGM – authority for the directors to determine auditor's remuneration and reappointment of auditors approved by shareholders unanimously External interim review plan and fees 	<ul style="list-style-type: none"> Valuer report 2022 interim results and half-year announcement Risk management update External interim review report Assessment of principal and emerging risks and risk appetite Review of compliance with the Code 	<ul style="list-style-type: none"> External audit plan and fees Independence of external auditor Internal controls effectiveness Whistleblowing policy Fraud and anti-bribery update

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 2022, the key issues relating to our financial statements that were considered are set out below:

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
Valuation of property portfolio	The valuation of our investment property portfolio is inherently subjective as it is undertaken on the basis of assumptions made by valuers, which may not prove to be accurate. The outcome of the valuation is significant in terms of our results, future investment decisions and remuneration	The external valuers carry out a valuation every year at 30 June and 31 December. They also provide an overview of the UK property market and the detailed performance of the group's assets. The valuer attended a meeting with the board and the auditor after the year end, where the agenda included the process adopted by the valuer, data provision by management, comparable market data and assumptions used by the valuer including estimated rental values and yields. It also reviewed a commentary on the relevant qualifications of the valuer and on their independence. It noted that the fee for the recurring valuation work was £18,000 and for other advisory work, including valuation fees for lenders, was £5,000 (2021 £18,000 and £16,000). The audit committee analysed the reports, reviewed the summary of the work of the executives in reviewing the valuer's work, reviewed the valuation outcomes and challenged assumptions where it believed appropriate. It also noted that the fee arrangement with the valuer was on a fixed fee basis in line with best practice. It also noted the results of the work carried out by alternate valuers for bank valuation reports on three properties during 2022 and the comparison of the outcomes to those of the bi-annual valuations	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. The committee recommended to the board that it considers the rotation of the valuer in 2023 in line with best practice

Significant issues considered	Potential risk	How those issues were addressed	Conclusion
Revenue recognition	Revenue may be recorded in the incorrect accounting period, or fail to be recorded at all, or fictitious revenues may be recorded	The committee considered the appropriateness of the controls in place in the revenue cycle, having particular regard to the use of external agents and the controls in place over their work including the reconciliations performed and reviewed internally	The committee concluded that the revenue recognition policies and controls were appropriate
REIT status	The group loses its REIT status	The committee considered the controls in place to ensure compliance with REIT tests. In particular, they reviewed the compliance with the distribution requirement and the impact of forecasted results and trends on this criterion. They also reviewed the non close company status requirement in the context of the professional advice that had been taken on this during 2021	The committee concluded that the group's REIT status had been maintained during the year
Going concern statement	If this basis was inappropriate then there could be material misstatements in the financial statements	The committee reviewed the analysis supporting the preparation of the financial statements on a going concern basis, particularly in light of the legacy of the Covid-19 pandemic, the ongoing war in Ukraine and the current high-inflationary pressures in the UK. This review included forecast cashflows, loan maturities, headroom on our debt covenants and undrawn debt facilities	The committee concluded that the going concern method of preparation remained appropriate. The going concern statement is set out on page 45
Viability statement	If the statement was incorrect then corrective action might need to be undertaken to ensure the group's viability	The committee reviewed management's assessment of whether the group's long-term viability appropriately reflects the prospects of the group and covers an appropriate period of time. This included consideration of whether the assessment adequately reflected the groups risk appetite and principal risks as disclosed on pages 38 to 43; whether the period of five years covered by the statement was reasonable given the strategy of the group and the environment in which it operates; and whether the assumptions and sensitivities identified, and stress tested, represented severe but plausible scenarios in the context of solvency and liquidity. The committee reviewed the report by the auditor on their work carried out on the management's assessment	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 44
Provisioning	Incorrect provisioning would affect the results of the current and future periods	The committee considered the management approach in determining appropriate provisioning levels for rental arrears and tenant incentives including those that remain related to the Covid-19 pandemic	The committee was satisfied that the provisioning approach was appropriate and proportionate for the group

In addition, the committee consider the additional risks that may arise related to Highcroft's status as an associated undertaking of Kingerlee Holdings Limited, which commenced on 10 December 2020. In 2022, the committee continued to recommend to the board that, as a result of this status, Mazars should carry out a full interim review at the half year.

Audit committee report continued

Financial reporting and fair, balanced and understandable reporting

The committee continues to review the content and tone of the preliminary results, annual report and interim results prior to their publication, the application of the group's accounting policies and the detail of any changes to the financial reporting requirements. Drafts of the annual report are reviewed by the committee prior to the formal consideration by the board with sufficient time provided for feedback.

The committee reviewed the key messaging included in the annual report and interim results, paying particular attention to those matters considered to be important to the group by virtue of their size, complexity, level of judgement required or potential impact on their financial statements.

The committee also considered the annual report and accounts, as a whole, on behalf of the board and made a recommendation to the board that it resolve that they were fair, balanced and understandable and provided the information necessary for stakeholders to assess the group's position, performance, business model and strategy. The committee ensured that the board continued to present a balanced and understandable assessment of the group's position and prospects in all interim and other price-sensitive public reports to regulators.

The responsibilities of the directors with regard to the financial statements are described on page 87, and that of the auditor on page 66.

In accordance with DTR4.1.14R, Highcroft is required to publish its annual report in eXtensible HyperText Markup Language (XHTML) and key elements of its financial statements need to be tagged using eXtensible Business Reporting Language (XBRL) in accordance with a published single electronic reporting taxonomy. The 2021 annual report was formatted and tagged in accordance with these requirements and the 2022 report will be tagged in greater detail as required by legislation. It was noted that this tagging did not require external audit approval. The committee noted that in order to prepare for these requirements, management had:

- appointed an external specialist (Parseport for 2021 and BDO for 2022) to assist with tagging
- conducted trial runs in 2021 to ensure that the initial process worked
- established a process for checking all tags (internal in 2021 and external for the more complex 2022 tagging requirement)
- established a process to ensure that both PDF and XHTML formats of the 2022 annual report will be available at the same time for publishing on the group website and filing at the National Storage Mechanism

External auditor

Auditor independence

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. It is a group policy that non-audit work will not be awarded to the external auditor if there is a risk that their independence may be jeopardised. The committee monitors the level of fees incurred for non-audit services to ensure that this is not material. The committee must approve in advance all non-audit assignments carried out by the external auditor. The fees payable to the external auditor are as follows:

	2022 £'000	2021 £'000
Audit fees	58	54
Interim review	10	10
	68	64

Auditor tenure

Mazars LLP were appointed as auditors to the group in 2017, following a formal competitive tender. The group's audit partner is Nargis Yunis who rotated onto this role in March 2022, to replace Stephen Eames, in line with regulation.

Auditor effectiveness

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 audit planning meeting of the committee, which outlined key risks (including the valuation of investment property, risk of revenue misstatement due to the inclusion of fraudulent transactions and areas of accounting capable of manipulation). The directors are satisfied that the risks identified by the auditors are consistent with those identified internally. The committee assesses the performance of the external auditor through informal dialogue with the executive directors taking account of the planning, delivery and execution of the audit, the technical competence and strategic knowledge of the audit team and the effectiveness of reporting and communication between the audit team and management.

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, nor unduly influenced by management, and a discussion of any areas where they have had to use their professional scepticism.

Committee evaluation

The audit committee reviews the appointment of the external auditor on an annual basis and 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 board also reviewed the auditor's effectiveness and considered: the qualification and expertise of the engagement partner and the audit team, the availability of resources to complete a timely and comprehensive audit, the quality of the audit in respect of key judgements and estimates and audit deliverables. 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 2023 AGM.

FRC review

During 2021, the audit of the 2020 annual report and accounts by Mazars was subject to routine review by the Audit Quality Review (AQR) team of the FRC. The results were communicated to Mazars and the company in 2022. The AQR team reviews the process of the audit by examining the audit papers and discusses issues with the audit partner and with me as chair of the audit committee. At the end of the review the AQR writes to both, giving their comments. The committee is satisfied with the outcome, which underpins our view of the overall quality of the Mazars audit. The AQR process is useful in strengthening our overall process and is commended by the committee.

Restoring trust in audit and corporate governance

The committee welcomes all developments that aim to improve transparency in governance and trust in corporate disclosures. The committee notes the government's consultation (BEIS consultation), published in March 2021 and reported in May 2022. The report notes intended changes that aim to progress director accountability in relation to dividends and capital maintenance, to corporate reporting and directors' remuneration. The committee will monitor the outcome of the consultation to ensure that there is a process for incorporating any required changes into the group's practices or reporting. There is no clear time frame for implementation of the reforms or the setting up of the new regulator the Audit, Reporting and Governance Authority (ARGA). The committee will consider early adoption of the proposals during 2023. The key proposed reforms insofar as they may relate to the group include:

Proposed reforms	Highcroft's initial response
A strengthening, by the regulator, of the Code in the area of internal controls	We will continue to review our internal control framework annually identifying how it may be further strengthened
Additional disclosures around distributable reserves, dividend policy, dividend paying capacity and the legality of dividends	We have enhanced our disclosures in respect to distributable reserves and our dividend policy
A new reporting requirement of a resilience statement (to replace the viability statement) that covers the short, medium and long term of the business; this statement will need to be reverse stress-tested	During 2023 we will plan to enhance our disclosures regarding the short, medium and long-term threats to the group's resilience
A requirement to publish an audit and assurance policy setting out the group's approach to assuring the quality of the information presented to shareholders beyond that reported in the financial statements	During 2023 we will review the detailed requirements and start to develop an audit and assurance policy

The committee will consider, during 2023, whether its terms of reference need to be enhanced to include responsibilities arising from these reforms.

Audit committee report 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 and is in line with the group's strategy. The audit committee is responsible for overseeing the adequacy and 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 provides reasonable, but not absolute, assurance against material misstatement or loss. Highcroft, whilst a premium main market listed group, is very small when considering the number of people working directly in the business. Our group structure is simple and transparent and our internal control procedures and policies are well established, reviewed annually internally, and subject to review during the external audit. The internal financial control system was in place for the period under review up to the date of approving the accounts and is summarised in the table below.

Overview of internal financial controls

Financial reviews and internal procedures	There is a quarterly system of financial reporting and forecasting for the board, which includes variance and sensitivity analyses. Our five-year forecasts are updated prior to each main board meeting and a more thorough exercise is carried out annually. Suitably qualified staff prepare documents, in good time, to allow adequate internal review and audit processes to take place
Governance framework	Our governance framework (page 60) supports effective financial control through an approved schedule of matters reserved for decision by the board including property transactions, significant capital expenditure, and dividends. There are clear limits of authority for approvals for all purchases and payments
Internal controls reviews	There is an annual review of internal controls by the committee and the board
Tax procedures	Corporation tax return input data and draft calculations are prepared internally. The preparation of capital allowance reports and corporation tax returns are prepared by external advisers and reviewed by the finance director. Payroll is prepared by an external specialist and checked internally and any variances to expectation investigated. The group has an open relationship with HMRC and had an update meeting in January 2023, at which no compliance or other issues arose
Staff awareness	Both staff members are aware of the delegated limits set by the board. The committee and board have approved a whistleblowing policy for reporting of concerns
External verification	During the year, no significant issues were identified by Mazars as a result of the control testing carried out as part of their audit

There is an ongoing process to identify, evaluate and manage the risks facing the business. The systems of internal control and board protocols were reviewed during the year and the conclusion was that the systems are adequate for a group of this size and complexity. Risk is on the agenda for all committee and board meetings. This review has been undertaken in accordance with guidance published by The Institute of Chartered Accountants in England and Wales.

More detail regarding our management of risk within our strategic framework is set out on pages 38 to 43.

The committee has considered the internal control and risk management systems in relation to the financial reporting process and concluded that they are adequate.

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

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

Internal audit

The committee has considered the need for an internal audit function but has decided that the size and complexity of the group does not justify it at present. The work of

Simon Costa

Chair of the audit committee
27 March 2023



Nomination committee report

Appointment, evaluation and succession.

Charles Butler

Chairman



2022 key achievements

- review of the role of chief executive and how this could be realigned to support the business
- appointment of the new chief executive
- facilitated smooth appointment process for David Warlow
- induction of new directors

Focus areas for 2023

- consideration of executive and non-executive succession planning
- review of training and development needs for the board
- review of skills of the board and how this supports delivery of strategy

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

Main responsibilities

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

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

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	Date of committee appointment	Attendance
Simon Costa	Chairman	May 2018	5/5
Charles Butler	Member	January 2018	5/5

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

Activities of the committee

Appointment of chief executive

The process to find our new chief executive was led by the committee. The committee initially assessed the existing role to fully consider whether it should continue in its current form, or whether it would be more beneficial for the company if the role was structured in an alternative way. As part of investigating the options, initial discussions were held with an external search consultancy. The outcome of these conversations was that given the size of the company, the process for sourcing, identifying and securing the right candidate, and the cost and timing required to identify a new chief executive to undertake the existing role, did not make this a viable option.

The committee concluded, together with the board, that separating part of the asset management elements of the role from the existing chief executive role, would be advantageous. A revised role profile was collated and it was concluded that in terms of cover for the responsibilities, this new arrangement would represent an improvement. The committee agreed that should the new chief executive have an existing association with a property advisory firm this could be advantageous but not essential. This being the preferred option, the committee worked with the executive team to identify suitable candidates to approach.

Discussions were held with property advisory firms alongside the search for a new chief executive. Candidates for the chief executive role were considered on the basis of their skills and experience. The rigorous recruitment process involved an interview process by a selection panel made up of the chairman, senior independent director, current chief executive and finance director, from which the shortlisted candidate met with each member of the board. The views of the directors were provided to the committee and a recommendation was made to the board by the committee.



The committee fulfilled an important role in leading on the process to appoint a new chief executive, ensuring the current and future needs of the business were addressed.

In accordance with our policy of all board appointments being made with the aim of achieving a correct balance and blend of skills, experience, knowledge, backgrounds, diversity, in all its forms, the recruitment process aimed to ensure that it would attract a diverse range of candidates and that new members of the board are able to work effectively with all of our stakeholders.

We were delighted to welcome Paul Leaf-Wright to the board from 1 January 2023. For further details see page 04.

New non-executive director

During the year, the board welcomed David Warlow to the board, following the resignation of David Kingerlee. As reported, David Warlow continues to represent the interests of the Kingerlee Holdings Limited and, therefore, no external recruitment process was required.

Succession planning and board composition

The committee continued to ensure that it regularly reviewed succession plans for the company. These discussions helped to inform the decisions approved by the board on appointing a property advisory firm, as part of modifying the role of chief executive.

In accordance with the Code, all directors offer themselves for reappointment on an annual basis at the AGM. The board carried out an effectiveness evaluation during the year and the committee concluded that each of the directors continues to make an effective and valuable contribution, demonstrates commitment to their role and that it is in the best interest of the shareholders that each director be re-elected. The competencies and experience required in the boardroom were considered as part of the board evaluation and the committee continues to monitor the need to secure any particular skills. The board considers that the length of time that each director serves on the board should not necessarily be limited and has not set a finite tenure policy.

Diversity

The committee recognises the importance and benefits of all aspect of diversity not limited to gender, ethnic group, background, age or cognitive and personal strengths within the boardroom and amongst its employees. Our 'Board Diversity' section on page 55, gives further details on our approach.

Charles Butler

Chair of the nomination committee
27 March 2023



Directors' remuneration report

Policy, practices, supporting strategy.

Simon Costa

Chair of the remuneration committee



Main responsibilities

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

➤ Role

to assist the board to fulfil its responsibility to shareholders to ensure that executive remuneration is designed to support strategy and promote sustainable success and is aligned to company purpose and linked to the delivery of the company's long-term strategy.

➤ Remuneration policy

to determine and agree with the board the policy for the remuneration of the executive directors and ensuring that they are appropriately incentivised to enhance the group's performance and are rewarded for their contribution to the success of the business by designing, monitoring, and assessing incentive arrangements, and assessing performance and outcomes against them.

➤ Dialogue with shareholders

to maintain an active dialogue with shareholders, ensuring their views are sought and considered when setting remuneration policy.

Annual statement

I am pleased to introduce the remuneration report for the year ended 31 December 2022. This report comprises three sections:

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

This report describes the fourth year of the application of the remuneration policy incorporating the Highcroft Incentive Plan and explains the committee's intentions for 2023.

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 comprised solely of the independent chairman of the board and the independent non-executive director, and meets at least three times per year, together with ad-hoc meetings when required. The attendance at committee meetings during the year is set out below:

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

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

Major decisions made during the year

During the year, the remuneration committee met to:

- Review the current policy in the context of the ongoing appropriateness for the company, given the resignation of the chief executive and the recruitment of his replacement and evolving practice, and determining the proposal to the 2023 AGM for a revised remuneration policy;
- Consider whether the Highcroft Incentive Plan was an appropriate incentive for the two executive directors in the future and whether there was a more appropriate solution that continues to add rigour and transparency to the determination of awards, while also rewarding both the delivery of returns to shareholders and sustained long-term performance and, in so far as is practicable, is in line with the requirements of the Code;
- Agree the incentive plan criteria and awards for executive directors for 2022;
- Begin to review the level of directors' salaries and the split between fixed and variable elements for 2023. The directors' salaries were informally benchmarked against the external market and advice taken from recruitment consultants during the CEO search process. Changes for all directors were proposed and confirmed after the year end; and
- Consider the process regarding the decision on Simon Gill's status as a good leaver.

Advisers

The committee appointed PwC in 2023 to advise them on market practice related to incentive plans and the proposed change in remuneration policy.

Remuneration philosophy

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



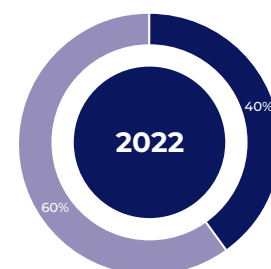
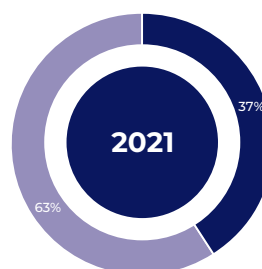
Our remuneration policy aligns appropriate management incentives with our strategy.

Remuneration strategy

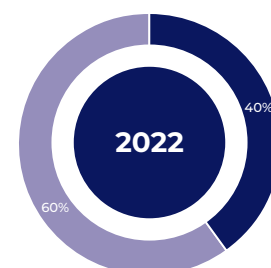
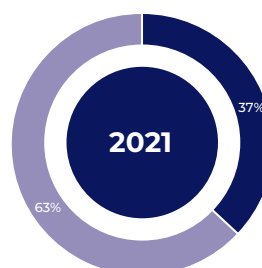
The current remuneration policy was approved by the shareholders at the 2022 AGM and was unchanged from the policy approved at the 2019 AGM. In the light of David Kingerlee's transfer of status from an executive director to a non-executive director in 2021, and Simon Gill's resignation as chief executive and feedback during the recruitment process for his successor, the committee reconsidered the remuneration policy during the year. After the year end the committee and board determined that the existing policy was overly complex for an organisation of Highcroft's size and does not sufficiently incentivise the executive directors. The committee and board have, therefore, approved a new remuneration policy designed to continue to support strategy and to promote sustainable success, whilst incentivising the executives in a clear and less complex manner. The committee consulted major shareholders on this proposed policy and no concerns were raised. The revised policy will be proposed to shareholders for approval at the 2023 AGM.

Total remuneration – split between fixed and performance-linked elements

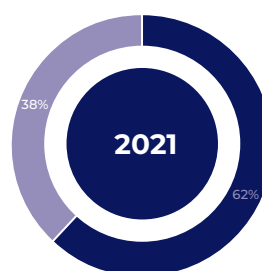
Simon Gill	2021	2022
Fixed	37%	40%
Base salary	36%	39%
Pension and other benefits	1%	1%
Performance-linked	63%	60%
Highcroft Incentive Plan – cash	31%	31%
Highcroft Incentive Plan – share award	32%	29%



Roberta Miles	2021	2022
Fixed	37%	40%
Base salary	36%	39%
Pension and other benefits	1%	1%
Performance-linked	63%	60%
Highcroft Incentive Plan – cash	31%	31%
Highcroft Incentive Plan – share award	32%	29%



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



Directors' remuneration report continued

Summary of directors' remuneration policy

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

This section of the report summarises the group's remuneration policy, which was approved by shareholders at the 2022 AGM. During the year, the committee and the board considered the elements of the policy and its link to strategy and long-term sustainable success and concluded that the policy's structure and operation remained appropriate, but that for executive directors the split between base and variable salary, and the relatively complex Highcroft Incentive Plan, were no longer proportionate or appropriate. The board and committee have consulted with shareholders, including a representative of the Kingerlee Concert Party, in total representing 40.95% of the company and the Conn Concert party representing 23.60% of the company and there were no adverse comments received and consequently have agreed the policy that will be proposed to shareholders for approval at the 2023 AGM. An ordinary resolution to approve this is put to shareholders at least every three years. The policy is available on the group's website: www.highcroftplc.com.

The board's policy is that the remuneration of all directors should reflect their experience and expertise, and the particular value that they add to the group. In addition, the packages should be sufficient to attract and retain individuals of an appropriate calibre and capability and should reflect the duties and responsibilities of the directors and the value and amount of time committed to the group's affairs. The packages should continue to be aligned with our remuneration philosophy with at least one element of performance-related pay for each executive director.

The remuneration packages of all directors are reviewed annually, and these are listed in the adjacent table, 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	Maximum
Executive directors			
Fixed			
Base salary	Competitive remuneration base, benchmarked to the market reflecting role, responsibilities, skills and experience	To assist with recruitment and retention	Not set
Pension	To provide the legal minimum post-retirement benefits	To assist with recruitment and retention	Not set
Benefits	Provide a competitive level of benefits	To assist with recruitment and retention	The maximum will be set at the cost of providing the benefits described
Variable – old policy in place in 2022			
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 cash award capped at 10% of distributions paid to shareholders Up to 200% of base salary
Variable – proposed new policy with effect from 1 January 2023			
The Highcroft Bonus 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	Annual cash awards capped at 10% of distributions paid to shareholders Up to 40% of base salary for the chief executive and 100% of base salary for the finance director
Shareholding – old policy in place in 2022			
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	100% of base salary
Shareholding – proposed new policy			
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	None
Chairman and non-executive directors			
Fees	Competitive remuneration, benchmarked to the market reflecting role, responsibilities, skills and experience	To assist with recruitment and retention	Not set

Operation	Performance target
Reviewed at least annually. Paid monthly via payroll	N/A
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	N/A
There is no intention to introduce a 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	N/A
<p>Annual awards paid part in cash and part in shares</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 that 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>	<p>Performance is measured over the financial year</p> <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> <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 that causes the remuneration committee to believe the original metrics, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the remuneration committee believe that the formulaic outcome is not a fair and accurate reflection of business performance</p>
Annual awards paid in cash	As for the Highcroft Incentive Plan
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	None
Executives will be encouraged, but not required, to build up a shareholding in the company	None
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	N/A

Directors' remuneration report continued

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

Code principles	How the committee has addressed these
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	<p>The committee is satisfied that the remuneration arrangements in the policy are transparent, comprising simple incentive structures that are commonplace in the market and in line insofar as is proportionate with best practice remuneration provisions</p> <p>Key shareholders were consulted when the remuneration policy was initially adopted and are consulted prior to any updated policy being put to an AGM for approval, which happens at least every three years and happened during the current year. Our two employees are aware of the policy</p>
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	<p>The components of our remuneration policy are straightforward and are simple to operate and communicate</p> <p>The new remuneration policy aims to simplify the variable element of remuneration as the previous scheme was considered unduly complex for a small team of executive directors, was a disincentive for them and was difficult to understand and costly to implement and run</p>
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	<p>The range of performance outcomes is looked at carefully when setting performance target ranges. Discretion is used where the outcomes lead to an inappropriate pay outcome</p> <p>The deferred element of the Highcroft Incentive Plan and the proposed Highcroft Bonus Plan help to mitigate risk. The new remuneration policy removes the shareholding requirement as the target holding did not meaningfully align executive director interests with those of shareholders</p>
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy	<p>Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements</p> <p>There is the ability to override a formulaic driven outcome of incentive plans to minimise the likelihood of a poor link between reward and performance</p>
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance	<p>The incentive plan is determined based on a proportion of base salary, and is capped, so there is a sensible balance between fixed pay and performance-linked elements. The relative proportions have been revised for 2023 having taken into account an informal benchmarking exercise</p>
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy	<p>The committee ensure that the Highcroft Incentive Plan and Highcroft Bonus Plan criteria are consistent with the company purpose and values, and that the performance measures are linked to the business strategy</p>

Highcroft Incentive Plan – consequences of the proposed new remuneration policy

If the new remuneration policy is approved at the 2023 AGM no further awards will be made under the Highcroft Incentive Plan. The remuneration committee then intend to use their discretion to advance the vesting of the previously issued share awards to the date of the AGM. This action has no effect on group cashflows or the calculation of the allowable costs for calculating the PID pool. It will, however, enable future remuneration disclosures to be simplified and clearer. In 2023 there would be a charge to the statement of comprehensive income of £78,721 that would have otherwise have been expensed in 2024–2026. In addition, as part of the rebalancing between fixed and variable elements of remuneration Roberta Miles' basic salary will be increased.

Recruitment remuneration policy

The remuneration committee's approach to recruitment remuneration is to apply the same structure as described in the policy table. On appointment, base salary levels will be set taking into account a range of factors including expected time commitment, market levels, experience, internal relativities and affordability. The maximum annual opportunity under the new Highcroft Bonus Plan will be up to 40% of base salary for the chief executive and 100% of base salary for the finance director as set out in the remuneration policy.

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

Loss of office policy

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

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

- A 'good leaver' is defined as a participant ceasing to be in employment by reason of death, injury, ill health, disability, redundancy, retirement or otherwise at the remuneration committee's discretion. In these circumstances, unvested incentive awards will vest in full on the usual date but pro-rated for time served and the achievement of performance conditions.
- The 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.

The committee have considered Simon Gill's resignation against these criteria. They have concluded, using their discretion, that Simon Gill is a good leaver given his significant contribution to the company over the last decade. The vested shares and the shares that will vest in the future will be subject to the shareholding requirement in the 2022 remuneration policy.

Illustration of policy

The tables below illustrate the remuneration opportunity provided to each executive director in line with different levels of performance for 2023 and in line with the existing remuneration policy.

Chief executive (Paul Leaf-Wright)			Finance director (Roberta Miles)			Executive director (Simon Gill to 31 March 2023)					
Maximum	72%	28%	£107,000	Maximum	34%	66%	£409,000	Maximum	34%	66%	£115,000
On target	81%	19%	£95,000	On target	45%	55%	£308,000	On target	45%	55%	£87,000
Minimum	100%		£77,000	Minimum	100%		£139,000	Minimum	100%		£39,000
<div><div></div> Salary, benefits and pension</div> <div><div></div> Highcroft Bonus Plan</div>											

■ Salary, benefits and pension ■ Highcroft Bonus 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' remuneration report continued

Directors' service contracts

Executive directors are given service contracts, within which there is a notice period by either party of six months. Non-executive directors have a formal appointment document for a period of up to three years subject, at any time, to termination on six months' notice by either party. All directors retire and are subject to election at the first AGM after their appointment. The board follows the Code recommendations in that all directors offer themselves for re-election at each AGM.

Consideration of employment conditions elsewhere in the company

There are two other part-time employees in the company, a company secretary and a management accountant, whose salaries are decided by benchmarking to the market, their skills, experience, and contribution. The directors did not consult with these employees in setting the directors' remuneration policy as it was not considered appropriate to do so.

Consideration of shareholder views

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

Audit

The law requires the group's auditor, Mazars LLP, to report on whether the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the independent auditor's report on pages 90 to 95.

Directors' contracts

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

Non-executive directors	Date of appointment as director	Effective date of current appointment letter	Expiry of term	Notice period
Charles Butler	2 January 2018	2 January 2021	1 January 2024	Six months
Simon Costa	15 May 2015	15 May 2021	14 May 2024	Six months
David Warlow	1 August 2022	1 August 2022	1 August 2025	Six months
David Kingerlee ¹	12 September 1996	7 April 2021	1 August 2022	Six months

¹ Prior to 7 April 2021, David Kingerlee was an executive director and he resigned as a non-executive director with effect from 1 August 2022.

Executive directors	Date of appointment as director	Date of contract	Notice period
Simon Gill ¹	1 April 2013	7 December 2017	Six months
Paul Leaf-Wright	1 January 2023	3 January 2023	Six months
Roberta Miles	1 July 2010	7 December 2017	Six months

¹ Resigned with effect from 31 March 2023.

Annual report on remuneration for the year

Relative importance of spend on pay

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

	2022 £'000	2021 £'000	2020 £'000
Directors' remuneration	770	737	703
Increase in director's remuneration ¹	4.5%	4.8%	31.6%
Distributions paid to shareholders	2,909	3,007	2,484
Directors' remuneration as a % of distributions paid to shareholders	26.5%	24.5%	28.3%
Cash element of directors' incentive plan award as % of distributions paid to shareholders	7.3%	7.2%	8.4%

¹ In 2020, the accounting treatment for the PAYE/Nl on the share award was altered – see page 80 for more details.

Directors' remuneration 2022 (audited)

	2022					2021				
	Base salary £	Pension/ pension allowance £	Incentive plan		Total £	Base salary £	Pension/ pension allowance £	Incentive plan		Total £
			Cash award £	Share award ¹ £				Cash award £	Share award ¹ £	
Charles Butler	53,000	–	–	–	53,000	50,000	–	–	–	50,000
Simon Costa	40,500	–	–	–	40,500	38,000	–	–	–	38,000
Simon Gill	140,500	4,215	112,400	102,593	359,708	127,500	3,825	111,435	111,435	354,195
David Kingerlee ²	14,583	–	–	–	14,583	28,250	285	5,928	–	34,463
Roberta Miles	124,000	3,720	99,200	90,545	317,465	112,500	3,375	98,325	98,325	312,525
David Warlow ³	4,167	–	–	–	4,167	–	–	–	–	–
Total	376,750	7,935	211,600	193,138	789,423	356,250	7,485	215,688	209,760	789,183

¹ Award granted for the year. The 2021 figures have been restated as they previously represented the element relating to the financial year including the proportion of previous year's awards expensed in the financial year. In order to reconcile to note 4 to the consolidated financial statements the share award expensed in the year of £173,644 from the deferred share element of award table overleaf has to replace the share award for the year of £193,138 in the table above.

² Executive director until 7 April 2021, then non-executive director until resignation on 1 August 2022.

³ Appointed 1 August 2022.

Highcroft Incentive Plan 2022

The maximum opportunity under the Highcroft Incentive Plan for 2022 was 200% of salary for Simon Gill and Roberta Miles.

The 2022 award was based on four performance measures as shown in the table below. The financial performance measures are related to the weighted average relevant MSCI measure, which is deemed to be an appropriate relevant market index.

The relative weighting, thresholds and outcomes together with the 2022 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	
							Cash	Deferred shares	Cash	Deferred shares
Adjusted NAV per share movement	30%	(18.4)% (8.3)%	25% 100%	(11)%	80.1%	24.0%				
Adjusted EPS growth	30%	1.1% 7.1%	25% 100%	5%	74.2%	22.3%				
Gross rent (ERV) growth	15%	1.3% 8.0%	25% 100%	3%	34.8%	5.2%				
Strategic personal objectives	25%									
Simon Gill					100.0%	25%				
Roberta Miles					100.0%	25%				
Total	100%									
Simon Gill						76.5%	80.0%	73.0%		
Roberta Miles						76.5%			80.0%	73.0%

Directors' remuneration report continued

Deferred share element of award

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

Deferral period	50% of the award years	50% of the award years
2019 award	3.77	4.77
2020 award	3.37	4.37
2021 award	3.46	4.46
2022 award	3.44	4.44

	Deferred share element					Expensed in							
	Base salary £	% of base salary	Gross pay put through payroll £	MV of shares issued ¹	PAYE/NI payable on award ²	2019 £	2020 £	2021 £	2022 £	2023 £	2024 £	2025 £	2026 £
Simon Gill													
2019 award	113,500	47.50%	53,913	28,574		12,802	768	6,785	5,913	2,306	–	–	–
					25,339		25,339	–	–	–	–	–	–
2020 award	125,000	55.23%	69,039	36,591			9,616	9,616	9,616	6,195	1,548	–	–
					32,448		32,448	–	–	–	–	–	–
2021 award	127,500	87.40%	111,435	59,061				15,156	15,156	15,156	10,547	3,046	–
					52,374			52,374	–	–	–	–	–
2022 award	140,500	73.02%	102,593	56,426					14,556	14,556	14,556	9,963	2,795
					46,167				46,167	–	–	–	–
						12,802	68,171	83,931	91,408	38,213	26,651	13,009	2,795
Roberta Miles													
2019 award	95,500	47.50%	45,363	24,042		10,771	646	5,709	4,975	1,941	–	–	–
					21,321		21,321	–	–	–	–	–	–
2020 award	110,000	55.23%	60,754	32,200			8,462	8,462	8,462	5,452	1,362	–	–
					28,554		28,554	–	–	–	–	–	–
2021 award	112,500	87.40%	98,325	52,112				13,373	13,373	13,373	9,306	2,687	–
					46,213			46,213	–	–	–	–	–
2022 award	124,000	73.02%	90,545	47,328					12,209	12,209	12,209	8,357	2,344
					43,217				43,217	–	–	–	–
						10,771	58,983	73,756	82,236	32,974	22,877	11,044	2,344
Total						23,573	127,154	157,688	173,644	71,188	49,528	24,053	5,139

¹ The MV of the shares issued is calculated by deducting the employee's marginal rate of PAYE and NI from the gross award. For 2022 55% was used for Simon Gill and 52.27% for Roberta Miles.

² In 2020 the accounting treatment for the share award was altered, in that the PAYE/NI on the whole share award is expensed in the service period and only the expense of the net salary used to acquire shares is spread across the total service and vesting period. This resulted in a net additional expense of £35,580 related to the 2019 share award being charged in 2020, together with £10,447 of employers' national insurance.

Awards of prior years

The 2019, 2020 and 2021 awards were paid via the payroll in the year after the year of award and the net sum (calculated as 53% of the gross sum, after deducting PAYE and NI) was used to purchase new shares at the average of the closing share price for the previous three working days.

	2019 award			2020 award			2021 award			Total	
	Date shares purchased	Number of shares	Purchase price at £6.63 per share £	Date shares purchased	Number of shares	Purchase price at £8.07 per share £	Date shares purchased	Number of shares	Purchase price at £9.87 per share £	Purchase price £	Value at 31 December 2022 at £9.30 per share £
Simon Gill	5 May 2020	4,309	28,569	12 April 2021	4,534	36,589	31 March 2022	5,984	59,061	124,219	137,891
Roberta Miles	5 May 2020	3,626	24,040	12 April 2021	3,990	32,199	31 March 2022	5,280	52,114	108,353	119,933

During the year the following number of shares related to the 2019 award vested: Simon Gill 2,154, Roberta Miles 1,813.

Remuneration of the chief executive (CEO)

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

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fixed remuneration										
Simon Gill	145	131	129	113	108	98	95	70	51	21
Jonathan Kingerlee (deceased)	–	–	–	–	–	–	–	–	–	20
Variable remuneration										
Simon Gill	204	195	168	104	101	94	87	82	60	–
Total remuneration										
Simon Gill	349	326	297	217	209	192	182	152	111	21
Jonathan Kingerlee (deceased)	–	–	–	–	–	–	–	–	–	20
	349	326	297	217	209	192	182	152	111	41
Percentage change in total remuneration of CEO	7%	10%	37%	4%	9%	5%	20%	37%	171%	17%
Annual variable element award payout against maximum opportunity ¹	77%	87%	68%	64%	N/A	N/A	N/A	N/A	N/A	N/A

¹ The Highcroft Incentive Plan was introduced in 2019. Prior to that, any bonuses paid were entirely discretionary with no maximum opportunities defined.

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

Executive directors' remuneration 2022

The charts below show the 2022 actual remuneration against the potential opportunity for the year and also the 2021 actual remuneration for each executive director. Full disclosure of the single total figure for remuneration is set out above.

Simon Gill Chief executive

2022 actual	39%	60%	£359,708
2022 potential	33%	66%	£425,715
2021 actual	36%	63%	£354,195

Roberta Miles Finance director

2022 actual	39%	60%	£317,465
2022 potential	33%	66%	£375,720
2021 actual	36%	63%	£312,525

■ Base salary ■ Pension ■ Incentive Plan/Discretionary bonus

Directors' remuneration report continued

Annual percentage change in remuneration of directors and employees

The table below shows a comparison of the annual change of each individual director's pay. As there are only two non board employees, one of whom started in 2021, it is not considered appropriate or beneficial to include that information as a comparator.

Change in pay between the years	2021-2022				2020-2021				2019-2020			
	Base salary/fees % change	Pension allowance % change	Incentive plan Cash award % change	Share award % change ²	Base salary/fees % change	Pension allowance % change	Incentive plan Cash award % change	Share award % change ²	Base salary/fees % change	Pension allowance % change	Incentive plan Cash award % change	Share award % change ²
Executive directors												
Simon Gill	10%	10%	1%	(8%)	2%	2%	11%	61%	10%	100%	10%	28%
David Kinglerlee (to 7 April 2021) ¹	(100%)	(100%)	(100%)	–	0%	0%	1%	–	6%	67%	(9%)	–
Roberta Miles	10%	10%	1%	(8%)	2%	2%	12%	62%	15%	15%	15%	34%
Non-executive directors												
Charles Butler	6%	–	–	–	2%	–	–	–	23%	–	–	–
Simon Costa	7%	–	–	–	3%	–	–	–	17%	–	–	–
David Kinglerlee (from 7 April 2021 to 1 August 2022) ¹	0%	–	–	–	(19%)	–	–	–	–	–	–	–
David Warlow (from 1 August 2022)	100%	–	–	–	–	–	–	–	–	–	–	–

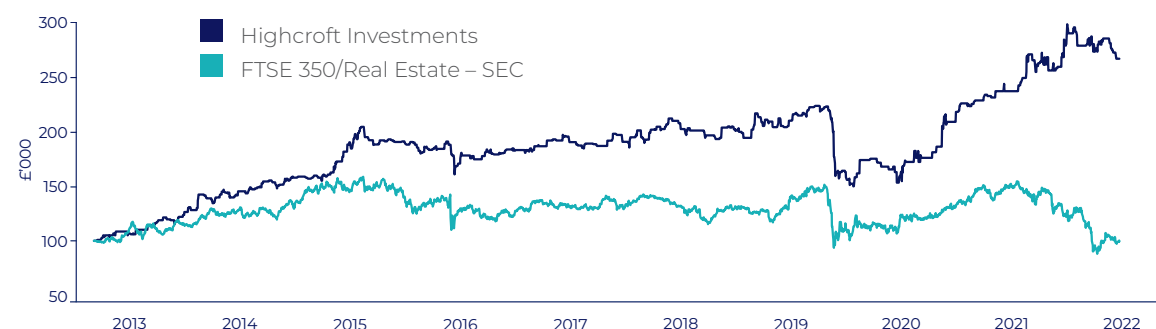
¹ David Kinglerlee's percentage change has been calculated on a pro-rata basis and to his 2021 non-executive remuneration.

² The % change is calculated by reference to the gross value of the award and not the amount expensed in the year.

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.



Statement of implementation of remuneration policy in the next financial year

The board, as explained above, is proposing a new remuneration policy to the 2023 AGM. No further changes are proposed during 2023.

Salaries 2023

The committee undertook a benchmarking exercise with PwC at the beginning of 2019. At the end of each subsequent year, the committee carried out their own informal internal update of this exercise and reviewed the board salaries against wider market practice. The following base salaries apply from 1 January 2023:

Simon Gill	£152,500	Charles Butler	£58,000
Paul Leaf-Wright	£75,000	Simon Costa	£44,000
Roberta Miles	£135,000	David Warlow	£11,000

If the new remuneration policy is approved at the AGM Roberta Miles' base salary for 2023 will increase to £180,000.

Highcroft Incentive Plan 2023

It is intended that this plan will not be used for any future awards.

Highcroft Bonus Plan 2023

The maximum opportunity under the Highcroft Bonus Plan for 2023 will 40% of salary for the chief executive and 100% of salary for the other executive directors. The awards will be based on performance measures including but not limited to:

- NAV per share performance
- Adjusted EPS performance
- Gross rent growth
- Strategic metrics (non-financial)

Performance targets for the Highcroft Bonus Plan for 2023 are not disclosed here on the grounds of commercial sensitivity, and will be disclosed in the 2023 directors' remuneration report.

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

The interests of the directors, and their connected persons, in the shares of the company at 31 December 2022, were as follows:

	Held under the Highcroft Incentive Plan ¹	Held directly	Total
Charles Butler	–	–	–
Simon Costa	–	–	–
Simon Gill	12,673	2,154	14,827
David Warlow	–	1,421,063	1,421,063
Roberta Miles	11,083	7,763	18,846

¹ The shares held under the Highcroft Incentive Plan include all those issued in prior years, see page 81 (awards of prior years), less those vested, all of which are subject to malus and clawback in accordance with the 2022 remuneration policy (pages 74 to 75).

Director's shareholding guideline

Under the existing remuneration policy executive directors are subject to within-employment and post-employment shareholding requirements – see pages 74 to 75.

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

At 31 December 2022, the executive directors are on track to build up, on a straight-line basis, to their shareholding guideline within the five-year period.

Executive director	Beneficially held shares ¹	2022 base salary £	Target by May 2025 £	Achieved at 31 December 2022	Value of beneficially held shares £
Simon Gill	14,827	140,500	140,500	98.1%	137,891
Roberta Miles	18,846	124,000	124,000	141.3%	175,268

¹ The number of shares includes those issued in their name but not yet vested under the Highcroft Incentive Plan.

The value of the executive directors' shareholdings has been calculated using the closing price at 31 December 2022 of £9.30.

Statement of shareholder voting

At the AGM in 2022, the resolution to approve the directors' remuneration report received the following voting from shareholders:

Votes cast in favour	2,982,739	99.91%
Votes cast against	2,627	0.09%
Total votes cast	2,985,366	100%
Votes withheld	–	–

Approved by the board of directors and signed by

Simon Costa

Chair of the remuneration committee
27 March 2023

Report of the directors

The corporate governance report on pages 52 to 87 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 2022.

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

Directors

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

Charles Butler	Non-executive chairman
Simon Costa	Senior independent non-executive director
Simon Gill	Chief executive
David Kingerlee (resigned 1 August 2022)	Non-executive director ¹
Roberta Miles	Finance director
David Warlow (appointed 1 August 2022)	Non-executive director ¹

¹ David Kingerlee was, from 7 April 2021 until his resignation, and David Warlow is, from his appointment, a shareholder representative for Kingerlee Holdings Limited and consequently for these periods were both non-independent non-executive directors as explained on page 62.

On 1 January 2023, Paul Leaf-Wright was appointed as chief executive and Simon Gill changed his role to executive director. Simon Gill has resigned from the board with effect from 31 March 2023.

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 83.

In accordance with the Code, all continuing directors will retire and offer themselves for election or re-election at the forthcoming 2023 AGM.

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

Financial instruments

The groups exposure to, and management of, capital risk and liquidity risk is in Note 18 to the consolidated financial statements.

Structure of share capital and rights and obligations attaching to shares

The company's allotted and issued share capital, as at 31 December 2022, was £1,298,741 (2021 £1,295,925) divided into 5,194,963 (2021 5,183,699) ordinary shares of 25p each, each of which was called up and fully paid. There have been no changes to the share capital since the year end.

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

➤ To receive a dividend

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

➤ To a return of capital or assets, if available, on liquidation

Upon any winding up of the company, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the statutes, divide among the members in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members of different classes of members.

➤ To receive notice of, attend and vote at an AGM

At each AGM, upon a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, every member present in person or by proxy shall have one vote for every share of which they are the holder.

➤ To have, in the case of certificated shares, rights in respect of share certificates and share transfers

Every person whose name is entered as a member in the register as the holder of any certificated share shall be entitled without payment to one certificate for all the shares of each class held by them or, upon payment of such reasonable out-of-pocket expenses for every certificate after the first as the board shall from time to time determine, several certificates each for one or more of their shares. On any transfer of shares, the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

Substantial shareholders

As at 31 December 2022, the following notifications of interests in 3% or more of the company's ordinary share capital in issue had been received:

	Beneficial	Number of shares
D G & M B Conn and associates	23.60%	1,226,205
Controlling shareholder – Kingerlee		
Concert Party comprising		
– the wholly owned subsidiaries of Kingerlee Holdings Limited:		
– Kingerlee Limited	9.91%	515,000
– Kingerlee Homes Limited	7.92%	411,293
– T H Kingerlee & Sons Limited	9.52%	494,770
Total – Kingerlee Holdings Limited	27.35%	1,421,063
– other associates	13.60%	706,319
Total – Kingerlee Concert Party	40.95%	2,127,382

Controlling shareholder

A controlling shareholder is defined by the FCA as 'any person who exercises or controls, on their own or together with any other person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at general meetings of the company'. The directors are aware that the shareholdings of Kingerlee Holdings Limited and its subsidiaries referred to in the previous table, together with their connected parties and associates, form the Kingerlee Concert Party, which, as at 27 March 2023, held 2,127,382 ordinary shares, representing 40.95% 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 2022 until 31 December 2022 (the period);
- So far as the company is aware, the independence provisions in the CSA have been complied with by the controlling shareholder and its associates in the period; and
- So far as the company is aware, the procurement obligation in the CSA has been complied with by the controlling shareholder in the period.

The CSA contains undertakings that inter alia:

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

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

Directors' indemnification and insurance

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

Report of the directors continued

Greenhouse gas emissions

Under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, the company is required to report annual greenhouse gas emissions.

In considering their obligations, the directors have taken into account the following factors:

- The group operates from a two-desk serviced office of approximately 200 sq ft within a larger building and has no direct responsibility for energy usage. Energy use, given the space occupied, is immaterial compared to other uses shown below and would be impracticable to collect.
- The annual energy cost for which we were responsible within the property portfolio has this year for the first time exceeded 40,000kWh. This increase from last year was due primarily to the works undertaken at the void Cardiff office property of 17,797 sq ft.
- The car fuel used by the group and its advisers is considered immaterial.

On this basis, the directors are reporting for the first time in accordance with the 2013 Regulations as below and as such there is no comparable data for last year:

2022		
Scope 1 – Direct emissions	Combustion of fuel and operation of facilities	0 (Note 1)
Scope 2 – Indirect emissions	Purchased electricity (location-based) 79,952 kWh	15,461 kg CO ₂ (Note 2)
Scope 3 – Indirect emissions		0 (Note 3)

Note 1: As stated above, the group operates from a serviced office and has no direct responsibility for energy usage.

Note 2: The annual energy costs for the limited shared areas within the portfolio was 18,796 kWh, 3,634 kg CO₂. During 2022 there was a significant amount of improvement and dilapidations work carried out at our void Cardiff property, for which the group is responsible. This work is now completed. For 2022, the energy usage for Cardiff was 61,156 kWh, 11,826 kg of CO₂, converted using the DEFRA Electricity conversion rate.

Note 3: We are continuing to investigate the best means of measuring and attributing our indirect Scope 3 emissions.

Methodology

The GHG sources that constituted our operational boundary for the year are:

Scope 1: Direct GHG emissions created when we used fossil fuels in company-owned facilities and equipment, which we consider immaterial.

Scope 2: Indirect GHG emissions caused by those who supply us with energy, including electricity.

Scope 3: All other indirect GHG emissions from the whole value chain. We are investigating the best means of measuring and attributing our indirect Scope 3 emissions since this involves liaison with our suppliers and tenants up and down the value chain.

Baseline data: As this is the first year that we have fallen into scope of these regulations, 2022 data will be used as our baseline data.

Energy Saving initiatives: During the year, we sought to make energy savings including upgraded LED lighting, and to encourage energy savings by reducing car parking spaces and providing cycle racks all at our property in Cardiff. The board also agreed to address the EPC ratings of the portfolio, primarily focusing on any properties that fall below the Minimum Energy Efficiency Standards to be introduced from 1 April 2023. (See Sustainability section on pages 48 to 50 for further details).

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

The directors work closely with tenants, potential tenants and key members of our advisory team. During 2022, due to the new ways of working arising from the Covid-19 pandemic, our interactions have continued to be a mixture of face-to-face and virtual. More detail can be found on pages 46 to 47.

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 105.

Charitable donations

During the year, the group made charitable donations of £12,000. More detail can be found on page 51.

Disclosure of information to the auditor

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

Likely future developments in the business of the company

In our strategic report we outlined our business model, strategy and future opportunities for development. Read more about this in our strategic report on pages 16 to 51.

Auditor

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

Post balance sheet events

On 8 February 2023 the group exchanged and completed on the sale of its Llantrisant asset that was classified as held for sale at 31 December 2022. The gross sales proceeds were £7,850,000, £1,100,000 in excess of the valuation at 31 December 2022.

This report was approved by the board.

Roberta Miles

Finance director
27 March 2023

Statement of directors' responsibilities

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group financial statements in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom for the group, and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

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

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

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

Responsibility statement of directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom for the group and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) for the parent company, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the report and accounts, taken as a whole, are fair, balanced, and understandable and provide the necessary information for shareholders to assess the group's performance, business model and strategy.

On behalf of the board.

Charles Butler

Chairman
27 March 2023

Financial statements

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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 2022 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 Cashflows, the notes 1 to 21 to the consolidated financial statements, including a summary of significant accounting policies, the Company Statement of Financial position, the Company Statement of Changes in Equity and notes 1 to 13 to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 22 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted International Accounting Standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern;
- Evaluating the directors' method to assess the Group's and the Parent Company's ability to continue as a going concern as approved by the board of directors on 27th March 2023;
- Making enquiries of directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and the Parent Company's future financial performance. This included examining the minimum cash inflow and committed outgoings under the cash flow forecasts and evaluating whether the directors' conclusion that liquidity headroom remained in all events was reasonable;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, as described in Note 1, by reviewing supporting evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included assessing the viability of mitigating actions within the directors' control;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusions on going concern;
- Testing the accuracy used to prepare the directors' forecasts; and
- Reviewing the appropriateness of the directors' disclosures in the financial statements.

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

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

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

Key Audit Matters

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

We summarise below the Key Audit Matter in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

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

Key Audit Matter	How our scope addressed this matter
<p>Investment property valuation</p> <p>The Group has a portfolio of investment properties consisting of warehouse/industrial, retail warehouse, high street retail, office and leisure in England and Wales. The Group's investment properties were carried at £77.9m as at 31 December 2022.</p> <p>The valuations were carried out by the third party valuer Knight Frank (the 'valuer'). The valuer was engaged by the Directors and performed their work in accordance with the Royal Institute of Chartered Surveyors ("RICS") Valuation – Professional Standards and the requirements of IAS 40 'Investment property'.</p> <p>Investment properties make up 90.3% 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 fair value under IFRS 13. The valuation of the investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. The wider challenges currently facing the real estate sector, as a result of regional and macroeconomic factors, further contributed to the subjectivity in establishing valuations at 31 December 2022. As a result, the valuation of investment properties is considered to be a Key Audit Matter.</p> <p>Refer to page 64 (Report of the Audit Committee), pages 101 and 103 (Note 1 Significant accounting policies, accounting estimates and judgments and investment property) and pages 106 to 110 (Note 8 Investment property).</p>	<p>Our audit work included but was not limited to:</p> <ul style="list-style-type: none"> ➤ Understanding management's review controls on the third-party valuation report by discussing with management and performing a walkthrough to understand the design and implementation of review controls; ➤ Evaluating the valuer's competence, capabilities and objectivity; ➤ Obtaining the valuation reports and evaluating that valuation approach was in accordance with the RICS standards; ➤ For all properties, testing of completeness and accuracy of data used in the valuation models and reviewing the key assumptions made by the valuer and appraising these against available market data such as locations and market growth; ➤ On a sample basis, engaging our valuation specialist to review reasonableness and suitability of the key valuation assumptions and compare the property valuations to publicly available recent comparable property transactions; and ➤ Reviewing the adequacy of the disclosure in the financial statements, including the valuation methodology, assumptions and fair value hierarchy used. <p>Our observations</p> <p>Based on the work performed and evidence obtained, we consider the methodology and assumptions used to value the investment properties to be appropriate.</p>

Independent auditor's report continued

to the members of Highcroft Investments PLC

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

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

Group materiality

Overall materiality	£863,000
How we determined it	The overall Group statutory materiality has been calculated with reference to the Group's total assets, of which it represents approximately 1%.
Rationale for benchmark applied	Total assets have been identified as the principal benchmark within the financial statements as it is considered to be the focus of the shareholders. 1% has been chosen to reflect the level of understanding of the stakeholders of the Group in relation to the inherent uncertainties around accounting estimates and judgements.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. On the basis of our risk assessments, together with our assessment of the Group's overall control environment, we set performance materiality at £604,000 which is approximately 70% of overall Group materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £26,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Parent company materiality

Overall materiality	£538,000
How we determined it	The Parent Company's statutory materiality has been calculated with reference to the Parent Company's total assets, of which it represents approximately 1%. For the purposes of the Group audit, we capped the overall materiality for the company to be 62% of the Group overall materiality.
Rationale for benchmark applied	Total assets have been identified as the principal benchmark within the financial statements as it is considered to be the focus of the shareholders. 1% has been chosen to reflect the level of understanding of the stakeholders of the Group in relation to the inherent uncertainties around accounting estimates and judgements.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. On the basis of our risk assessments, together with our assessment of the Group's overall control environment, we set performance materiality at £376,000 which is approximately 70% of overall company materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £16,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

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

Our Group audit scope included an audit of the Group and the Parent Company financial statements. Based on our risk assessment, all components of the Group, including the Parent Company, were subject to full scope audit performed by the Group audit team. For each component in the scope of the Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £67,000 and £756,000. For all components across the Group performance materiality was set at 70%.

At the Parent Company level, the Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the:

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

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

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

Independent auditor's report continued

to the members of Highcroft Investments PLC

Corporate governance statement

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

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 45;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on page 44;
- Directors' statement on fair, balanced and understandable, set out on page 66;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 38;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 68; and;
- The section describing the work of the audit committee, set out on pages 63 to 68.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 87, 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

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

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

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

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

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to revenue recognition (which we pinpointed to the cut-off and accuracy), valuation of investment property, and significant one-off or unusual transactions.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

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

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the audit committee on 12 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ending 31 December 2017 to 31 December 2022.

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

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

Use of the audit report

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

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Nargis Shaheen Yunis

(Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

27 March 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	2022			2021		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		5,608	–	5,608	5,928	–	5,928
Property operating expenses	8	(333)	–	(333)	(670)	–	(670)
Net rental income		5,275	–	5,275	5,258	–	5,258
Profit on disposal of investment property		–	–	–	–	250	250
Valuation gains on investment property		–	605	605	–	9,925	9,925
Valuation losses on investment property		–	(10,986)	(10,986)	–	(1,170)	(1,170)
Net valuation (losses)/gains on investment property	8	–	(10,381)	(10,381)	–	8,755	8,755
Administration expenses	3	(1,191)	–	(1,191)	(1,164)	–	(1,164)
Net operating profit/(loss) before net finance expense		4,084	(10,381)	(6,297)	4,094	9,005	13,099
Finance income		39	–	39	4	–	4
Finance expense		(840)	–	(840)	(855)	–	(855)
Net finance expense		(801)	–	(801)	(851)	–	(851)
Profit/(loss) before tax		3,283	(10,381)	(7,098)	3,243	9,005	12,248
Income tax charge	5	(18)	–	(18)	(304)	–	(304)
Profit/(loss) for the year after tax		3,265	(10,381)	(7,116)	2,939	9,005	11,944
Total profit/(loss) and comprehensive income/ (loss) for the year attributable to the owners of the parent		3,265	(10,381)	(7,116)	2,939	9,005	11,944
Basic and diluted (loss)/earnings per share	7			(137.0p)			230.5p

The total column represents the statement of total 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 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investment property	8	71,160	87,565
Total non-current assets		71,160	87,565
Current assets			
Trade and other receivables	10	1,143	2,876
Cash and cash equivalents		7,206	5,715
Assets classified as held for sale	9	6,750	–
Total current assets		15,099	8,591
Total assets		86,259	96,156
Liabilities			
Current liabilities			
Interest bearing loan	12	–	7,500
Trade and other payables	11	2,883	2,839
Total current liabilities		2,883	10,339
Non-current liabilities			
Interest bearing loan	12	27,200	19,700
Total non-current liabilities		27,200	19,700
Total liabilities		30,083	30,039
Net assets		56,176	66,117
Equity			
Issued share capital	13	1,299	1,296
Share premium		226	117
Share-based payment reserve		160	102
Revaluation reserve – property		11,499	19,236
Other equity reserve		(207)	(121)
Capital redemption reserve		95	95
Realised capital reserve		29,623	29,623
Retained earnings		13,481	15,769
Total equity attributable to the owners of the parent		56,176	66,117

These financial statements were approved by the board of directors on 27 March 2023.

Paul Leaf-Wright
Director

Charles Butler
Director

Company number: 00224271

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

Consolidated statement of changes in equity

2022	Issued share capital £'000	Share premium £'000	Share-based payment reserve £'000	Revaluation reserve – property £'000	Other equity reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2022	1,296	117	102	19,236	(121)	95	29,623	15,769	66,117
Transactions with owners:									
Issue of shares	3	109	–	–	(112)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(2,909)	(2,909)
	3	109	–	–	(112)	–	–	(2,909)	(2,909)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation losses	–	–	–	(10,381)	–	–	–	10,381	–
Change in excess of cost over fair value through retained earnings	–	–	–	2,644	–	–	–	(2,644)	–
Share award vested	–	–	(26)	–	26	–	–	–	–
	–	–	(26)	(7,737)	26	–	–	7,737	–
Share award expensed	–	–	84	–	–	–	–	–	84
Total comprehensive loss for the year	–	–	–	–	–	–	–	(7,116)	(7,116)
At 31 December 2022	1,299	226	160	11,499	(207)	95	29,623	13,481	56,176

2021	Issued share capital £'000	Share premium £'000	Share-based payment reserve £'000	Revaluation reserve – property £'000	Other equity reserve £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2021	1,294	51	43	12,814	(53)	95	28,995	13,882	57,121
Transactions with owners:									
Issue of shares	2	66	–	–	(68)	–	–	–	–
Dividends	–	–	–	–	–	–	–	(3,007)	(3,007)
	2	66	–	–	(68)	–	–	(3,007)	(3,007)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation gains	–	–	–	8,755	–	–	–	(8,755)	–
Realised gains	–	–	–	–	–	–	250	(250)	–
Surplus attributable to assets sold in the year	–	–	–	(378)	–	–	378	–	–
Change in excess of cost over fair value through retained earnings	–	–	–	(1,955)	–	–	–	1,955	–
	–	–	–	6,422	–	–	628	(7,050)	–
Share award expensed	–	–	59	–	–	–	–	–	59
Total comprehensive income for the year	–	–	–	–	–	–	–	11,944	11,944
At 31 December 2021	1,296	117	102	19,236	(121)	95	29,623	15,769	66,117

Consolidated statement of cashflows

at 31 December 2022

	Note	2022 £'000	2021 £'000
Operating activities			
(Loss)/profit before tax		(7,098)	12,248
Adjustments for:			
Net valuation losses/(gains) on investment property		10,381	(8,755)
Net gain on disposal of investment property		–	(250)
Share-based payment expense		84	59
Finance income		(39)	(4)
Finance expense		840	855
Operating cashflow before changes in working capital and provisions		4,168	4,153
Decrease in trade and other receivables		1,732	391
Increase in trade and other payables		34	120
Cash generated from operations		5,934	4,664
Finance income		39	4
Finance expense		(840)	(855)
Income taxes paid		(7)	(311)
Net cashflows from operating activities		5,126	3,502
Investing activities			
Sale of current assets – investment property	8	–	1,925
Purchase of non-current assets – investment property	8	(726)	–
Net cashflows from investing activities		(726)	1,925
Financing activities			
Dividends paid		(2,909)	(3,007)
Repayment of bank borrowings		(7,500)	–
New bank borrowings		7,500	–
Net cashflows from financing activities		(2,909)	(3,007)
Net increase in cash and cash equivalents		1,491	2,420
Cash and cash equivalents at 1 January		5,715	3,295
Cash and cash equivalents at 31 December		7,206	5,715

Notes to the consolidated financial statements

for the year ended 31 December 2022

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 2022 comprise the company and its subsidiaries, together referred to as the group. The principal activity of the group is investment in commercial property in England and Wales. The accounting policies remain unchanged.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom.

In light of the conflict in Ukraine, the legacy impact of Covid-19, together with the effect of the high level of inflation on the UK economy, and the sectors in which the group and company operates, the directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the group's and company's financial statements for the year ended 31 December 2022. The group's and company's going concern assessment considers the group's and company's principal risks, identified on pages 40 to 43 of this document, and is dependent on a number of factors, including cashflow and liquidity, continued access to borrowing facilities, and the ability to continue to operate the group's and company's borrowings within its financial covenants. The debt has a number of financial covenants that the group is required to comply with including an LTV covenant, a 12-month historical interest cover ratio, and the facility agreements have cure provisions in the event of a breach. The going concern assessment is based on a 12-month outlook from the date of the approval of these financial statements, using the group's five-year forecast. This forecast is based on a reasonable scenario, which includes the following key sensitivities:

- 10% reduction in net income from our portfolio.
- A 20% increase in the forecast proposed capital expenditure.
- An increase in the assumed inflation rates by 5%.

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

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

Based on the consideration above, the board believes that the group and company have the ability to continue in business for at least 12 months from the date of approval of the financial statements for the year ended 31 December 2022, and, therefore, have adopted the going concern basis in the preparation of this financial information.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

Analysis of statement of comprehensive income

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

Accounting estimates and judgements

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

New accounting standards and interpretations

There are no new accounting standards or interpretations issued during the year that would materially affect the group.

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

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 2022, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue as a lessor

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

Finance costs

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

Share-based employee remuneration

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

Expenses

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

Lease expenses

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

Realised gains and losses

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

Income tax

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

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

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

1 Significant accounting policies continued

Investment property

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

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

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

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

Assets classified as held for sale

Where a board decision has been made to dispose of an investment property in its present condition prior to the year end, and the following conditions are met; an active programme to locate a buyer has been initiated, the asset is being actively marketed at a reasonable price, it is unlikely that there will be any significant changes to the plan to sell the asset and it is regarded as highly probable that a sale will complete within one year, the property is included within current assets and stated at fair value.

Trade and other receivables

Trade and other receivables, which are generally due for settlement, in advance, prior to the relevant quarter or month, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. The group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable trade receivables. In determining the expected credit losses, the group takes into account any recent payment behaviours and future expectations of likely default events such as 90 days past due. Trade and other receivables are written off once all avenues to recover the balances are exhausted. Receivables written off are no longer subject to any enforcement activity.

Cash and cash equivalents

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

Financial liabilities

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

Trade payables and borrowings are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

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

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

Issued share capital

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

Share-based payment reserve

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

Revaluation reserve – property

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

Other equity reserve

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

Share premium

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

Capital redemption reserve

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

Realised capital reserve

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

Retained earnings

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

Segment reporting

The group has one main operating segment – commercial property – and, therefore, no additional segmental information is required. A segment is a distinguishable component of the group whose operating results are regularly reviewed by the group's chief operating decision maker, who is the chief executive. For management purposes, the group uses the same measurement policies as those used in its financial statements.

2 Segment reporting

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

In 2022, one tenant represented £684,000, 12.2% of the gross rental revenue of £5,608,000. In 2021, the largest tenant represented £684,000, 11.5% of gross rental revenue.

3 Administrative expenses

	2022 £'000	2021 £'000
Directors (Note 4)	877	837
Auditor's fees		
– Fees payable to the company's auditor for the audit of the company's accounts – current year ¹	58	54
– Fees payable to the company's auditor for other services	10	10
Staff costs – (excluding directors' remuneration)	69	44
Other expenses	177	219
	1,191	1,164

¹ The audit fee for 2022 includes £11,710 (2021 £10,900) related to the completion of a group reporting questionnaire for the Kingerlee Holdings Limited's auditor. This amount is recoverable in full from Kingerlee Holdings Limited and has been netted off other expenses.

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

4 Directors

	2022 £'000	2021 £'000
Remuneration in respect of directors was as follows:		
Remuneration	770	738
Social security costs	107	99
	877	837

The average number of employees was seven (2021 six), all of whom, other than a part-time management accountant and a part-time company secretary, were directors of the group. All directors are considered to be key managers of the company. More detailed information concerning directors' remuneration is shown in the directors' remuneration report.

5 Income tax charge

	2022 £'000	2021 £'000
Current tax:		
On revenue profits – current year	11	–
– prior year	7	–
On write-off of part of PID pool	–	304
Income tax charge	18	304

During 2021 the group took advantage of HMRC Covid-19 concessions and wrote £1.6m off its outstanding PID pool, which resulted in a tax charge of £304,000.

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2021 19%).

The differences are explained as follows:

	2022 £'000	2021 £'000
(Loss)/profit before tax	(7,098)	12,248
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021 19%)	(1,349)	2,327
Effect of:		
Profit not taxable as a result of REIT status	1,360	(2,327)
Tax due on non-payment of part of PID pool	–	304
Adjustment in respect of prior year	7	–
Income tax charge	18	304

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

6 Dividends

In 2022, the following dividends have been paid by the company:

	2022 £'000	2021 £'000
2021 Final: 33p per ordinary share (2020 30p)	1,714	1,555
2021 Special: nil per ordinary share (2020 6p)	–	311
2022 Interim: 23p per ordinary share (2021 22p)	1,195	1,141
	2,909	3,007

On 27 March 2023, the directors declared a final property income distribution for 2022 of £1,714,000, 33p per share, (2021 final property income distribution of £1,714,000, 33p per share), payable on 2 June 2023 to shareholders registered on 21 April 2023.

7 Earnings per share

The calculation of earnings per share is based on the total loss after tax for the year of £7,116,000 (2021 profit £11,944,000) and on 5,192,186 shares (2021 5,181,317), which is the weighted average number of shares in issue during the year ended 31 December 2022. There are no dilutive instruments.

In order to draw attention to the profit that is not due to the impact of valuation gains and losses that are included in the statement of comprehensive income, but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £3,265,000 (2021 £2,939,000) has been calculated.

	2022 £'000	2021 £'000
Earnings:		
Basic (loss)/profit for the year	(7,116)	11,944
Adjustments for:		
Profit on disposal of investment property	–	(250)
Net valuation losses/(gains) on investment property	10,381	(8,755)
Adjusted earnings	3,265	2,939
Per share amount:		
(Loss)/earnings per share (unadjusted)	(137.0p)	230.5p
Adjustments for:		
Profit on disposal of investment property	–	(4.8p)
Net valuation (losses)/gains on investment property	199.9p	(169.0p)
Adjusted earnings per share	62.9p	56.7p

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

8 Investment property

	2022 £'000	2021 £'000
Total valuation at 1 January	87,565	82,060
Additions	726	–
Disposals	–	(3,250)
Revaluation gains	605	9,925
Revaluation losses	(10,986)	(1,170)
Valuation at 31 December	77,910	87,565
Less property held for sale categorised as current asset (Note 9)	(6,750)	–
Property categorised as fixed asset	71,160	87,565

In accordance with IAS 40, the carrying value of investment properties is their fair value as determined by independent external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2022, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value.

The historical cost of the group's investment properties is £74,686,000 (2021 £73,961,000).

Valuation process

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

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

Our independent valuers have provided an explanatory note on the market conditions at 31 December 2022: 'Following the government's 'mini-budget' of 23 September 2022 and subsequent financial turmoil, we draw the group's attention to a recent combination of global inflationary pressures, significant currency movements and higher borrowing costs, which may produce greater volatility in property markets over the short to medium term. It is apparent that consumer and investor behaviour can change quickly during periods of such heightened volatility. Our opinions set out in this report are only valid as at the valuation date'.

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

Valuation technique

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

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as level 3 in the fair value hierarchy.

Significant unobservable inputs

31 December 2022		Warehouse	Retail warehouse	Leisure	Office	High street retail	Total
Valuation technique		Income capitalisation					
Fair value of property portfolio	£'000	34,875	21,500	9,875	7,600	4,060	77,910
Area	sq ft	583,499	133,726	88,145	29,567	12,622	847,559
Gross estimated rental value (ERV)	£'000	3,457	1,610	812	610	359	6,848
ERV per sq ft ¹							
Minimum	£	2.40	10.57	7.35	20.00	13.95	
Maximum	£	12.40	24.35	26.26	22.06	28.72	
Weighted average	£	8.51	12.95	11.53	20.86	23.14	
Net initial yield							
Minimum	%	4.90	6.03	6.69	0.00	1.98	
Maximum	%	11.09	8.66	8.52	5.20	9.45	
Weighted average	%	8.56	7.19	7.41	2.17	5.87	

¹ In 2022 the ERV per sq ft was calculated as the average per property (previously the highest and lowest Zone rents were used).

31 December 2021		Warehouse	Retail warehouse	Leisure	Office	High street retail	Total
Valuation technique		Income capitalisation					
Fair value of property portfolio	£'000	39,800	24,250	10,750	7,800	4,965	87,565
Area	sq ft	581,386	133,746	87,955	29,323	16,433	848,843
Gross estimated rental value (ERV)	£'000	3,310	1,557	812	600	382	6,661
ERV per sq ft							
Minimum	£	2.40	11.33	7.50	20.00	70.00	
Maximum	£	12.00	24.50	28.85	22.50	125.00	
Weighted average	£	8.18	13.37	12.12	21.02	102.55	
Net initial yield							
Minimum	%	4.31	5.02	2.93	0.00	0.00	
Maximum	%	11.98	8.44	7.73	4.39	8.94	
Weighted average	%	8.31	6.45	5.16	1.78	5.12	

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

8 Investment property continued

Sensitivities of measurement of significant unobservable inputs

As set out on page 106, the valuation of the group's property portfolio is open to judgements that are inherently subjective by nature.

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

There is no inter-relationship between these two inputs.

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

Sensitivities for changes in assumptions have been set out below at +/- 5% for ERV and +/- 50bps for IY, which are deemed to be the levels that give a reasonable worst-case scenario given the like-for-like valuation fall of 11.8% already recognised in the year.

31 December 2022	Warehouse £'000	Retail warehouse £'000	Leisure £'000	Office £'000	High street retail £'000	Total £'000
Fair value of property portfolio	34,875	21,500	9,875	7,600	4,060	77,910
Impact on valuation of:						
+5% on ERV	1,717	1,073	492	380	207	3,846
-5% on ERV	(1,719)	(1,073)	(492)	(380)	(197)	(3,836)
-50bps on IY	249	157	68	58	53	917
+50bps on IY	(245)	(154)	(67)	(57)	(41)	(880)

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

Additional property disclosures including property covenant information

Fourteen investment properties with a carrying amount of £54,935,000 (2021 13 properties with a valuation of £59,165,000) are charged to Handelsbanken plc to secure the group's short-term and medium-term loans.

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

	2022 £'000	2021 £'000
Less than one year	5,335	5,518
Between one and five years	12,889	14,265
More than five years	10,364	12,393
	28,588	32,176

Property disposals in 2021 related to our Andover property, which had a net book value at 31 December 2020 of £3,250,000, which was disposed of for net consideration of £3,500,000, of which £1,575,000 was immediately placed as security with Handelsbanken plc and is disclosed within other receivables at 31 December 2021 (Note 10) and £1,925,000 was added to cash. In April 2022 the secured deposit was released as security by the bank and reclassified as cash at bank.

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

9 Assets classified as held for sale

	2022 £'000	2021 £'000
Investment property held for sale	6,750	–

At 31 December 2022, the directors were in the advanced stages of the potential sale of our Llantrisant property. The purchaser completed their due diligence in February 2023 and the sale was exchanged and completed on 8 February 2023. The gross sales proceeds were £7,850,000, £1,100,000 in excess of the valuation at 31 December 2022 and £899,000 in excess of cost.

10 Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	196	310
Accrued rent receivable	806	868
Other receivables	141	1,698
	1,143	2,876

Included in trade receivables are amounts due from tenants at each year end and include amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2022, amounts due from tenants that were more than 90 days overdue, which related to rents for 2022 or earlier, totalled £368,000 (2021 £432,000), of this amount £350,000 related to 2021 or earlier. Trade and other receivables are shown after deducting a provision for bad and doubtful debts, which excludes VAT, of £330,000 (2021 £471,000). The provision for doubtful debts is calculated as an expected credit loss on trade and other receivables in accordance with IFRS 9 (see Note 1). The charge to the income statement in relation to write offs and provisions made against doubtful debts was £31,000 (2021 £189,000). The expected credit loss is recognised on initial recognition of a debtor and is reassessed at each reporting period. In order to calculate the expected credit loss, the group applies a forward-looking outlook to historic default rates. In the current reporting period, the forward-looking outlook has considered the impacts of the conflict in Ukraine, the legacy impacts of the Covid-19 pandemic and the effect of the high inflation rates in the UK. The historic default rates used are specific to receivables that are 90 days past due. Specific provisions are also made in excess of the expected credit loss where information is available to suggest that a higher provision than the expected credit loss is required. In the current reporting period, an additional review of tenant debtors was undertaken to assess recoverability in light of the difficult macro-economic climate and other factors. The directors consider that the carrying amount of trade and other receivables is approximate to their fair value. There is no concentration of credit risk with respect to trade and other receivables as all of the group's tenants have terms that require them to pay their rent in advance.

Other receivables at 31 December 2021 included £1,575,000 given as security to Handelsbanken plc from the proceeds of sale of our secured Andover property. The secured deposit was released to cash in April 2022.

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

11 Trade and other payables

	2022 £'000	2021 £'000
Deferred income	1,142	1,040
Social security and other taxes	679	628
Other payables	1,062	1,171
	2,883	2,839

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

12 Interest-bearing loan

	2022 £'000	2021 £'000
Short-term bank loans due within one year	–	7,500
Medium-term bank loans	27,200	19,700
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	–	–
Between two and five years	7,900	3,400
Over five years	19,300	16,300
	27,200	19,700

Further analysis of the short-term and medium-term bank loans is set out on page 37.

The weighted average effective interest rate is 3.06% (2021 3.13%).

13 Share capital

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

	2022		2021	
	Number	£'000	Number	£'000
At 1 January	5,183,699	1,296	5,175,175	1,294
Issued under the Highcroft Incentive Plan	11,264	3	8,524	2
At 31 December	5,194,963	1,299	5,183,699	1,296

The directors monitor capital on the basis of total equity and operate within the requirements of the articles of association. There was £nil of short-term debt and £27,200,000 of medium-term debt at 31 December 2022 (2021 £7,500,000 short-term debt and £19,700,000 of medium-term debt).

The rights and obligations relating to the company's share capital is summarised on page 84.

14 Share premium

	2022 £'000	2021 £'000
At 1 January	117	51
Issued under the Highcroft Incentive Plan	109	66
At 31 December	226	117

15 Capital commitments

At 31 December 2022 there were capital commitments of £136,000 (31 December 2021 £nil).

16 Contingent liabilities

There were no contingent liabilities at 31 December 2022 or at 31 December 2021.

17 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.4% (2021 27.2%) of the company's shares, and David Kingerlee (who was a director of the company until 1 August 2022, and a shareholder of the company throughout the year) and David Warlow (who was appointed a director of the company on 1 August 2022) are both directors and shareholders of Kingerlee Holdings Limited. The transactions between the group and Kingerlee Holdings Limited or its subsidiaries were as follows:

	2022 £'000	2021 £'000
Transactions by the company:		
Property income distribution paid to related party	789	817
Recharge of Mazars fee for completion of group audit questionnaire	12	11
Licence fee for use of property and recharge of sundry costs paid to related party	–	1

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

The company owns 100% of Rodenhurst Estates Limited and BL (Wisbech) Limited and Belgrave Land (Wisbech) Limited. The transactions between these companies have been eliminated on consolidation. Details of the net assets and profit for the financial year of these companies are set out on page 118 of this annual report.

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

	2022 £'000	2021 £'000
Simon Gill	8	5
David Kingerlee (resigned 1 August 2022)	30	52
Roberta Miles	11	8

Notes to the consolidated financial statements continued

for the year ended 31 December 2022

18 Financial instruments and financial risk

Categories of financial instruments

	2022		2021	
	Carrying amount £'000	Gains/ (losses) £'000	Carrying amount £'000	Gains/ (losses) £'000
Financial assets measured at amortised cost:				
Trade and other receivables	1,143	–	1,301	–
Cash and cash equivalents	7,206	–	5,715	–
	8,349	–	7,016	–
Financial liabilities measured at amortised cost:				
Interest-bearing loans	27,200	–	27,200	–
Trade and other payables	1,062	–	1,171	–
	28,262	–	28,371	–

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 2022, the group had £27,200,000 of medium-term borrowing (2021 £7,500,000 short-term borrowings and £19,700,000 of medium-term borrowing), of which £3,400,000 is repayable in 2026, £4,500,000 in 2027, £14,300,000 in 2029 and £5,000,000 in 2030 at fixed interest rates with a weighted average of 3.06% (2021 3.13%). The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values. A maturity analysis, based on contractual, undiscounted payments is set out below:

	2022					
	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within 1 year £'000	Due in more than 1 but less than 2 years £'000	Due in more than 2 but less than 5 years £'000	Due in more than 5 years £'000
Bank loans	27,200	32,087	833	833	10,187	20,234
Trade and other payables	1,062	1,062	1,062	–	–	–

	2021					
	Carrying amount £'000	Total contractual undiscounted cashflow £'000	Due within 1 year £'000	Due in more than 1 but less than 2 years £'000	Due in more than 2 but less than 5 years £'000	Due in more than 5 years £'000
Bank loans	27,200	30,991	8,166	557	5,037	17,231
Trade and other payables	1,171	1,171	1,171	–	–	–

Credit risk

The group's credit risk, that is the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for credit losses, estimated by the directors. The allowance as at 31 December 2022 was £330,000 (2021 £392,000). The group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December 2022 as summarised in the table above.

The group has no significant concentration of credit risk, with exposure spread over a number of tenants. The credit status of tenants is continuously monitored and particularly reviewed before properties are acquired, before properties are let and before new leases are granted.

The group's cash holdings are mainly in Handelsbanken plc and Lloyds Bank plc. Cash is also held by the group's property managers, lawyers and registrars acting as agents, though not, other than for tenant deposits, for long periods of time. The group only places cash holdings with major financial institutions that satisfy specific criteria.

Capital risk

The directors manage the group's working capital to take advantage of suitable commercial opportunities as they arise, whilst maintaining a relatively low-cost capital base. This capital management policy is principally carried out by the use of surplus cash. In the medium term, the directors may use additional medium-term debt to finance future commercial property acquisitions in line with its long-term strategy.

Liquidity risk

The group's liquidity risk, i.e. the risk that it might encounter difficulty in meeting its obligations as they fall due, applies to its trade payables and any short and medium-term borrowings that the group takes out from time to time. The group has not encountered any difficulty in paying its trade payables in good time. The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cash flows.

Interest rate risk

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

Currency exchange risk

The group is not directly exposed to currency risk.

Market risk

The group is not directly exposed to market risk.

Borrowing facilities

The group has no undrawn committed borrowing facilities.

19 Changes in liabilities arising from financing activities

	Bank loans (Note 12)	
	2022 £'000	2021 £'000
At 1 January	27,200	27,200
Interest charged	840	850
Interest paid	(840)	(850)
At 31 December	27,200	27,200

20 Net assets per share

	2022	2021
Net assets	£56,176,000	£66,117,000
Ordinary shares in issue	5,194,963	5,183,699
Basic net assets per share	1,081p	1,275p

21 Post balance sheet events

On 8 February 2023, the group exchanged and completed on the sale of its Llantrisant asset that was classified as held for sale at 31 December 2022. The gross sale proceeds were £7,850,000, £1,100,000 in excess of the valuation at 31 December 2022 and £899,000 in excess of cost.

Company statement of financial position

at 31 December 2022

	Note	2022		2021	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	5		50,663		60,418
Current assets					
Debtors	6	966		2,597	
Cash at bank		5,356		3,860	
		6,322		6,457	
Creditors – amounts falling due within one year	7	809		758	
Net current assets			5,513		5,699
Total assets less current liabilities			56,176		66,117
Net assets			56,176		66,117
Capital and reserves					
Called-up share capital	8		1,299		1,296
Reserves					
– Share-based payment		160		102	
– Realised capital		8,728		8,728	
– Other equity		(207)		(121)	
– Share premium		226		117	
– Capital redemption		95		95	
– Revaluation		40,399		50,155	
– Retained earnings		5,476		5,745	
			54,877		64,821
Shareholders' funds			56,176		66,117

The company reported total (loss)/profit and comprehensive income for the financial year ended 31 December 2022 of (£7,116,000) (2021 profit £11,944,000).

These financial statements were approved by the board of directors on 27 March 2023.

Paul Leaf-Wright
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 2022

	Note	Share capital £'000	Share-based payment reserve £'000	Realised capital reserve £'000	Other equity reserve £'000	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2022		1,296	102	8,728	(121)	117	95	50,155	5,745	66,117
Profit for the year	2	–	–	–	–	–	–	–	2,640	2,640
Other comprehensive income for the year	2	–	–	–	–	–	–	–	(9,756)	(9,756)
Dividends paid		–	–	–	–	–	–	–	(2,909)	(2,909)
Revaluation loss of subsidiaries		–	–	–	–	–	–	(9,756)	9,756	–
Issue of shares	3	–	–	–	(112)	109	–	–	–	–
Share award expensed		–	84	–	–	–	–	–	–	84
Share award vested		–	(26)	–	26	–	–	–	–	–
At 31 December 2022		1,299	160	8,728	(207)	226	95	40,399	5,476	56,176

	Note	Share capital £'000	Share-based payment reserve £'000	Realised capital reserve £'000	Other equity reserve £'000	Share premium £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2021		1,294	43	8,728	(53)	51	95	40,521	6,442	57,121
Profit for the year	2	–	–	–	–	–	–	–	2,310	2,310
Other comprehensive income for the year	2	–	–	–	–	–	–	–	9,634	9,634
Dividends paid		–	–	–	–	–	–	–	(3,007)	(3,007)
Revaluation gain of subsidiaries		–	–	–	–	–	–	9,634	(9,634)	–
Issue of shares	2	–	–	–	(68)	66	–	–	–	–
Share award expensed		–	59	–	–	–	–	–	–	59
At 31 December 2021		1,296	102	8,728	(121)	117	95	50,155	5,745	66,117

Notes to the company financial statements

for the year ended 31 December 2022

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and with the Companies Act 2006. The financial statements have been prepared under the historical cost convention except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. The principal accounting policies of the company have remained unchanged from the previous year.

These financial statements have been prepared on a going concern basis and in adopting the going concern basis the directors have, based on the information available at the date of this report, considered the financial implications of the conflict in Ukraine, the legacy impacts of the Covid-19 pandemic and the high inflation climate in the UK and the effect of all of these on our stakeholders.

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

- The requirement to present a cashflow and related notes
- Financial instrument disclosures including:
 - Categories of financial instruments;
 - Items of income, expenses, gains or losses relating to financial instruments; and
 - Exposure to, and management of, financial risks.

Dividend revenue

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

Share-based employee remuneration

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

Interest income

Interest is recognised under the effective interest method.

Dividends payable

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

Investments

Investments, being shares in subsidiary undertakings, are included 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).

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.

Receivables

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

Deferred tax

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

Financial liabilities

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

Gains on disposals of assets

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

2 Company (loss)/profit for the year after tax

The company has not presented its own profit and loss account as permitted under section 408 of the Companies Act 2006. The loss after tax for the year was (£7,116,000) (2021 profit £11,944,000). Information regarding directors' remuneration appears on pages 72 to 83 of this annual report.

3 Auditor's fees

	2022 £'000	2021 £'000
Fees payable to the company's auditor for the audit of the group's annual accounts ¹	58	54
Fees payable to the company's auditor for other services:		
Audit-related assurance services	10	10
	68	64

¹ The audit fee for 2022 includes £11,710 (2021 £10,900) related to the completion of a group audit questionnaire for the Kingerlee Holdings Limited's auditor. This amount is recoverable in full from Kingerlee Holdings Limited and has been netted of other expenses.

4 Dividends

In 2022, the following dividends have been paid by the company:

	2022 £'000	2021 £'000
2021 Final: 33p per ordinary share (2020 30p)	1,714	1,555
2021 Special: nil per ordinary share (2020 6p)	–	311
2022 Interim: 23p per ordinary share (2021 22p)	1,195	1,141
	2,909	3,007

On 27 March 2023, the directors declared a final property income distribution for 2022 of £1,714,000, 33p per share (2021 final property income distribution of £1,714,000, 33p per share), payable on 2 June 2023 to shareholders registered on 21 April 2023.

5 Investments

	Shares in subsidiary undertaking £'000
Valuation at 1 January 2022	60,418
Loss on revaluation in excess of cost	(9,756)
Valuation at 31 December 2022	50,663

Notes to the company financial statements continued

for the year ended 31 December 2022

5 Investments continued

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

	Shares in subsidiary undertaking £'000
Cost at 31 December 2022	10,271
Cost at 31 December 2021	10,271

At 31 December 2022, the company held 100% of the following companies, which are all registered in England and Wales and that all have the same registered office address as the company: Park Farm Technology Centre, Akeman Street, Kirtlington, Oxon, OX5 3JQ.

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

At 31 December 2022, the net assets and the (loss)/profit for the financial year of these subsidiaries were:

	2022		2021	
	Net assets £'000	(Loss)/profit for the financial year £'000	Net assets £'000	Profit for the financial year £'000
Rodenhurst Estates Limited	50,663	(6,756)	60,418	12,634
BL (Wisbech) Limited ¹	–	–	–	–
Belgrave Land (Wisbech) Limited	3,786	277	3,509	1,097

¹ BL (Wisbech) Limited is a dormant intermediate holding company between Belgrave Land (Wisbech) Limited and Rodenhurst Estates Limited. It holds the shares in Belgrave Land (Wisbech) Limited at cost.

6 Debtors

	2022 £'000	2021 £'000
Owed by subsidiary undertakings	935	2,567
Other debtors	31	30
	966	2,597

7 Creditors – amounts falling due within one year

	2022 £'000	2021 £'000
Other taxes and social security	260	251
Other creditors	549	507
	809	758

8 Share capital

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

	2022		2021	
	Number	£'000	Number	£'000
At 1 January	5,183,699	1,296	5,175,175	1,294
Issued under the Highcroft Incentive Plan	11,264	3	8,524	2
At 31 December	5,194,963	1,299	5,183,699	1,296

9 Share premium

	2022 £'000	2021 £'000
At 1 January	117	51
Issued under the Highcroft Incentive Plan	109	66
At 31 December	226	117

10 Capital commitments

There were no capital commitments at 31 December 2022 or at 31 December 2021.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2022 or at 31 December 2021.

12 Related party transactions

Kingerlee Holdings Limited owns, through its subsidiaries, 27.4% (2021 27.2%) of the company's shares, and David Kingerlee (who was a director of the company until 1 August 2022, and a shareholder of the company throughout the year) and David Warlow (who was appointed a director of the company on 1 August 2022) are both directors and shareholders of Kingerlee Holdings Limited. The transactions between the group and Kingerlee Holdings Limited or its subsidiaries were as follows:

	2022 £'000	2021 £'000
Property income distribution paid to related party	789	817
Recharge of Mazars fee for completion of group audit questionnaire	12	11
Licence fee for use of property and recharge of sundry costs paid to related party	–	1

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

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

13 Employees

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

	2022 £'000	2021 £'000
Remuneration	832	777
Pension costs	1	–
Social security costs	113	103
	946	880

List of definitions

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

Environmental, social and governance factors (ESG): Environmental criteria include the energy the company uses, the waste it discharges, the resources it needs and the consequences for the world. They encompass greenhouse gas emissions and climate change. Social criteria include the relationships that the company has with its broad range of stakeholders. Governance is the internal system of controls, policies and procedures used to govern itself, make effective decisions, comply with regulation and meet the needs of external stakeholders.

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

European Single Electronic Format (ESEF): Companies on the London Stock Exchange's main market are required to comply with ESEF tagging requirements.

Financial Reporting Council (FRC): The regulator of auditors, accountants and actuaries and the setter of the UK's Corporate Governance Code and Stewardship Codes.

Fully repairing and insuring (FRI): An FRI lease is where the tenant has responsibility for all external and internal maintenance, decorations and repairs as well as liability for insuring the building.

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

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

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

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

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

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

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

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

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

UK Corporate Governance Code (the Code): The 2018 UK Corporate Governance Code.

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

Group five-year summary (unaudited)

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Investment properties – at annual valuation	77,910	87,565	82,060	86,710	77,700
Equity investments – at market value	–	–	–	–	679
Total net assets	56,176	66,117	57,121	60,721	62,384
Net asset value per share in issue at end of each year	1,081p	1,275p	1,104p	1,175p	1,207p
Revenue (excluding gains/losses on disposals of assets)					
Gross income from property	5,608	5,928	6,084	5,840	5,043
Net admin expenses to gross rent	21.2%	19.6%	17.6%	14.1%	14.6%
Profit available for distribution	3,265	2,939	3,503	4,055	4,512
Share capital					
Weighted average number in issue (000s)	5,192	5,184	5,172	5,167	5,167
Basic earnings per share	(137.0p)	230.5p	(22.2p)	22.3p	95.3p
Adjusted earnings per share	62.9p	56.7p	67.7p	78.5p	87.3p
Dividends payable per share	56.0p	55.0p	57.0p	48.0p	52.5p
FTSE 350 Real Estate Index	399	623	491	602	468
Highcroft year-end share price	930.0p	875.0p	720.0p	942.5p	885.0p

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 to 31 December 2022
then executive director)

David Kingerlee, resigned 1 August 2022
(Non-executive)

Paul Leaf-Wright, B Compt (Hons) SA
appointed 1 January 2023
(Chief executive)

Roberta Miles, MA FCA
(Finance director)

David Warlow, appointed 1 August 2022
(Non-executive)

Company secretary

Anne-Marie Palmer, LLB FCG

Registered office and business address

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Statutory Auditor
Chartered Accountants
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Independent valuer

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and

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Highcroft

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