

# HIGHCROFT INVESTMENTS PLC

## HIGHCROFT INVESTMENTS PLC



# 2004

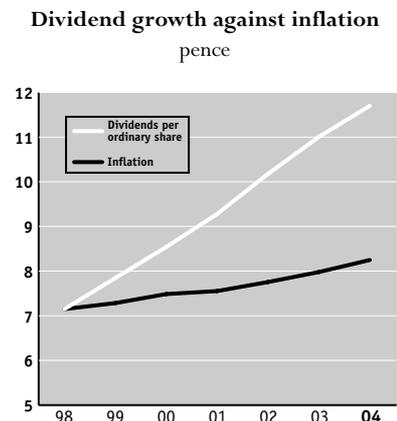
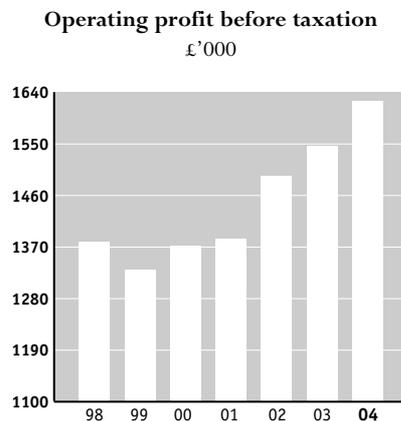
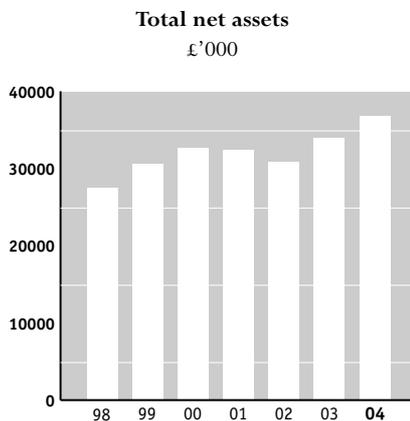
Report and Financial Statements 31 December 2004

“Dividends for 2004 are up 6.3%, while net asset value has risen 7.8% to 707p ..... We look forward to continuing success in 2005.”

– Gavin Kingerlee, *Chairman*

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- Gross property income up 6.2% to £1,667,000
- Operating profit up 4.8% to £1,624,000
- Basic earnings per share down 3.6% to 24.2p
- Adjusted earnings per share up 6.3% to 23.5p
- Two attractive additions to the property portfolio
- Net asset value per share up 7.8% to 707p, another new high
- Total dividends up 6.3% to 11.7p per share
- Final dividend of 7.65p payable on 8 June 2005
- Annual General Meeting on Wednesday 25 May 2005



*“Dividends for 2004 are up 6.3%, while net asset value has risen 7.8% to 707p . . . . . We look forward to continuing success in 2005.”*

The directors are pleased to present the seventy-seventh Annual Report together with the audited financial statements of the group.

### Strategy

The directors' broad objectives remain to enhance shareholder value through a combination of rising asset values and increasing profits, intended to sustain long term dividend growth. We set out our strategy in 2002 and again review here our performance against our principal objectives.

- “To modify the balance of the Company's allocation of funds between property and listed investments. A greater focus will now be on the property portfolio.”

We have purchased two property investments this year and sold one residential property which became vacant during the year. At the end of 2004, 78% of our investments were held in property (2003 76%) and 22% in listed investments (2003 24%). We are satisfied with the first results of the appointment of King Sturge as this has brought about the desired improvement in the flow of potential investments. It is intended that one or two of the commercial properties identified for potential disposal will be sold in 2005.

- “To realise a proportion of listed investments over time as tax-efficiently as possible. The funds generated will be reinvested in the property portfolio from which we expect to earn higher income yields than from listed investments.”
- “To maintain a smaller, though still significant, proportion of funds in listed investments in order to keep a broad risk profile. It is not the intention to realise the whole of the listed investment portfolio.”

The stock market rose some 7.5% during 2004 and we made several disposals from the listed investment portfolio showing a net gain in the profit and loss account. During the course of 2004 there was a net cash withdrawal of £233,000 from funds held in the listed investment portfolio.

- “In expanding the property portfolio, not to be averse to assuming a degree of development risk. However, such development risk will not, for example, include the purchase of bare land without planning permission. Rather the Board regards its forward funding of the Langford Locks development in 1999, as a good example of the development risk it will be happy to assume.”

The directors are looking at a small number of development opportunities from within the current portfolio but it is too soon to report on the likelihood of these opportunities coming to fruition.

- “Additionally, in expanding the property portfolio, not to be averse to a moderate level of gearing. However, this does not represent a radical shift to a highly geared property company. It is merely allowing ourselves the possibility that opportunities for the property portfolio may arise which cannot be met by internal funding but which can be met externally by loan finance.”

The directors have partly funded the year's property investments with a medium term loan of £1,568,000.

The two portfolios have generated sufficient income to be able to announce a further significant dividend increase for the year, from 11.0p to 11.7p, a rise of 6.3% with a dividend cover of 2.0 times (2003 2.0). Shareholders will be pleased to note that the seven year summary on page 28 shows that since 1998 both dividends and the share price have increased well above the rate of inflation. The 2004 dividends are 3.5p ahead of the inflation adjusted dividends of 1998 and the share price at 31 December 2004 was 146.9p higher than the 1998 inflation adjusted figure.

### Financial results - operating activities

Operating profit rose to £1,624,000 from £1,549,000 in 2003, an increase of 4.8%. Total income was £1,829,000 as compared with £1,758,000 in 2003. Net property income rose from £1,457,000 to £1,540,000, an increase of 5.7%.

Gross rents receivable were up 6.2% on 2003 reflecting the impact of the new investments and of rent reviews in both 2003 and 2004. Property income represented 84.2% of total income compared with 82.9% in 2003. Residential repair costs were relatively high in 2004 and so property expenses rose from £112,000 in 2003 to £127,000 in 2004.

### Financial results - capital activities

Net assets increased by 7.8% during the year from £33.9 million to £36.6 million. The increase was a steady one throughout the year and stemmed from both our property and listed investment portfolios.

During the course of the year, the group invested £4,089,000 in property assets (2003 £1,596,000) and invested £1,016,000 (2003 £624,000) in stock markets. The net proceeds from property disposals during the year amounted to £246,000 (2003 £660,000) while investment disposals raised £1,249,000 (2003 £1,334,000).

The net gains on these disposals amounted to £48,000 (2003 £158,000), comprising £9,000 of gains on property disposals and £39,000 of gains on disposal of investments. The net gain after taxation of £42,000 (2003 £158,000) was transferred to realised capital reserve.

As we anticipated in last year's report, the cash reserves of £1,079,000 which were held on 31 December 2003 were used on fresh property acquisitions and on 31 December 2004, the group had a medium term loan of £1,568,000 and a short term overdraft of £146,000.

### Property

The ten largest property holdings in the portfolio are listed on page 27 and they represent 68% of the value of the property investment portfolio of the group at 31 December 2004. The two additions were:

- A retail property in Cirencester comprising three units let to Going Places, Card Warehouse and Ladbrokes on leases expiring in 2009, 2014 and 2017 respectively. The net income from the property is approximately £91,000 p.a. giving an initial yield of 5.7% on cost.
- A warehouse unit, with offices, let to Metabo (UK) Limited under a guarantee from Metabowerke GmbH & Co on a lease expiring in 2015. The net income from the property is approximately £157,500 p.a. giving an initial yield of 6.3% on cost.

The property valuation showed a rise from £25.4 million to £30.5 million. Those properties that remained in the portfolio throughout the period show a rise in value equivalent to 5.8% (2003 6.1%). There are 20 (2003 18) commercial properties in the portfolio with an average value of £1,376,000 (2003 £1,244,000). There are 14 residential properties in the portfolio (2003 15). The average value of these residential investments is £215,000 (2003 £203,000).

Our commercial portfolio is let to tenants with good covenants, many of them blue chip, and the current rental income is from leases which expire as follows:

	2004	2003
In the next five years	17%	18%
In six to ten years	31%	28%
In eleven to fifteen years	35%	24%
After fifteen years	17%	30%

### Listed investments

2004 was again a better year for equity markets and the FTSE 100 was up from 4,477 to 4,814 a rise of 7.5%. Those listed investments that remained in our portfolio throughout the period showed a rise in value of 12.0% (2003 12.8%). We continued to review the portfolio in order to make tax efficient disposals while protecting our dividend income stream.

### Transition to International Financial Reporting Standards (IFRS)

We are aware that, as a fully listed company, from the year ending 31 December 2005, our accounts will have to comply with International Financial Reporting Standards. The full set of standards was issued in March 2004. The Board anticipates that, in common with other listed companies, certain accounting policies will have to be revised and the presentation of the company's financial statements will be altered. The first published information to reflect these changes will be the Interim Report for 2005 and, for this reason, we expect to publish our interim accounts a few weeks later than usual.

### Summary

We have reported that our equity portfolio valuation has risen by 8.3%, having realised net cash of £233,000. The property portfolio valuation has risen 20.0%, having invested a net £3,843,000. As a result we are pleased to report that the net asset value per share has risen by 7.8% to 707p (2003 656p), a record level. Total shareholders funds were £36,557,000 (2003 £33,901,000).

The increase in income and operating profits enables us to propose an increase in dividends which is well above the rate of inflation. Proposed dividends for 2004 are up 6.3% on 2003, with dividend cover very much the same. Basic earnings per share, which take account of asset disposals, are down 3.6% to 24.2p per share and adjusted earnings per share, adjusted to take out the effect of asset disposals, are up 6.3% to 23.5p per share.

In 2005, we are continuing to look for good quality property acquisitions which will fit well with our present property portfolio, helping us to secure the group's long term income and capital prospects. In the early part of 2005, a vacant residential property was sold. Our position on the listed investments portfolio is likely to be neutral but we continue to try to take advantage of opportunities and the progress of the market so that the combined portfolio has a good balance of risk and reward.

While both property and listed investment markets are never entirely predictable, the business remains well placed to pursue its strategies and has a solid balance sheet. We look forward to continuing success in 2005 and to meeting with shareholders at our AGM on 25 May 2005.

**G J Kingerlee**

Chairman

23 March 2005

## APPLICATION OF PRINCIPLES

The company has applied the principles of good governance contained in the Combined Code 03 (Principles of Good Governance and Code of Best Practice) introduced for listed companies for reporting periods commencing on or after 1 November 2003, except as noted in the Compliance Statement below.

### Compliance

The company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code 03 except that no performance related payments were made to directors, which is not in accordance with Code provision B.1.1.

### Directors

The company supports the concept of an effective board leading and controlling the company. The board is responsible for:

- approving company objectives, strategy and policies
- business planning
- review of performance
- risk assessment
- dividends
- appointments

The board meets at least six times a year and has a schedule of matters specifically reserved for its decision. Executive directors are responsible for the implementation of strategy and policies and the day-to-day decision making and administration.

During 2004 the number of board and committee meetings with individual attendances was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	6	3	1	–
Attendance:				
G J Kingerlee	6	3	1	–
J Hewitt	6	3	1	–
R N Stansfield	6	3	1	–
J C Kingerlee	6	Not applicable	Not applicable	–
D Bowman	6	3	Not applicable	–
D H Kingerlee	6	Not applicable	Not applicable	–

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

The board has six directors of which three are executive directors and three are non-executive directors who the board have determined are independent. The chairman is Gavin Kingerlee, the senior independent director is John Hewitt and the chief executive is Jonathan Kingerlee. The Board members' biographies are on page 7.

The independent non-executive directors bring additional experience and knowledge and are independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. This provides a balance whereby an individual or small group cannot dominate the Board's decision-making.

The directors are aware that non-executive directors who were previously executive directors are not normally regarded as being independent in this context. They have reviewed the case of Gavin Kingerlee, who was previously chief executive, and have concluded that shareholders can be satisfied, as the directors are, of Gavin Kingerlee's independence in his role as non-executive director and chairman of this company. Gavin Kingerlee is also a director and shareholder of Kingerlee Holdings Limited, a major shareholder. In the opinion of the directors, none of these facts impact upon his willingness and ability to serve the board nor detract from his ability to participate in its decision making processes with impartiality and independence of mind. In common with all directors, he is required to declare to the board any relevant facts which may affect his actual or perceived independence in respect of any issue before the board.

All directors are subject to re-election every three years and, on appointment, at the first AGM after appointment. The Board has established a separate nomination committee, comprising the non-executive directors responsible for making recommendations for appointments to the Board. The committee did not meet during 2004.

Formal procedures appropriate to the size of the business have been established for performance evaluation of the Board. They include objective-setting and review with the use of an external facilitator.

### Directors' remuneration

The directors' remuneration report is on page 9. It sets out the company's policy and the full details of all elements of the remuneration package of each individual director.

### Relations with shareholders

We have no institutional shareholders. However, the company values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The AGM is used to communicate with private investors and documents are sent to shareholders at least 20 working days before the meeting. The Chairman, in his capacity as Chairman of the Audit and Remuneration Committees is available to answer relevant questions. Separate resolutions are proposed on each substantially separate issue so that they can be given proper consideration and there is a resolution to receive and consider the annual report and financial statements. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

### Accountability and audit

The Board presents a balanced and understandable assessment of the company's position and prospects in all interim and other price-sensitive public reports, reports to regulators and information required to be presented by statute. The responsibilities of the directors as regards the financial statements are described on page 11, and that of the auditors on page 12. A statement on going concern appears on page 8.

The Audit Committee comprises the non-executive directors of the company who are Gavin Kingerlee (Chairman), John Hewitt, and Richard Stansfield. The written terms of reference of the Committee, which deal clearly with its authority and duties, include keeping under review the scope and results of the external audit and its cost-effectiveness. The Committee ensures the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the company, seeking to balance objectivity and value for money.

### Internal control

The Board is responsible for establishing and maintaining a sound system of internal control and for reviewing its effectiveness. The system of internal control is designed to meet the particular needs of the group and the risks to which it is exposed, and by its very nature provide reasonable, but not absolute assurance against material misstatement or loss. The internal control system was in place for the period under review up to the date of approving the accounts. There is an ongoing process to identify, evaluate and manage the risks facing the business. The entire system of internal control was reviewed during the year. This review has been undertaken in accordance with guidance published by the Institute of Chartered Accountants in England and Wales.

The key procedures, which exist to provide effective internal control, are as follows:

- clear limits of authority;
- annual revenue, cash flow and capital forecasts, reviewed regularly during the year, monthly monitoring of cash flow and capital expenditure reported to the Board, quarterly and half year revenue comparisons with forecasts;
- financial controls and procedures;
- clear guidelines for capital expenditure and disposals, including defined levels of authority;
- two-monthly meetings of the executive directors to authorise share purchases and sales;
- an audit committee, which approves audit plans and published financial information and reviews reports from external auditors arising from the audit and dealing with significant control matters raised;
- regular Board meetings to continuously monitor any areas of concern.

The Board has considered the need for an internal audit function but has decided that the size of the company does not justify it at present. However, it will keep the decision under annual review.

The Board has reviewed the operation and effectiveness of the group's system of internal control, including financial, operational and compliance controls and risk management for the financial year ended 31 December 2004 and the period up to date of approval of the financial statements.

By Order of the Board

**D Bowman**

*Company Secretary*

23 March 2005

## DIRECTORS AND ADVISERS

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<b>Company number</b>	224271
<b>Directors</b>	Gavin Kingerlee ( <i>Non-executive Chairman</i> ) John Hewitt, MA ( <i>Non-executive</i> ) Richard Stansfield, BSc FRICS ( <i>Non-executive</i> ) Jonathan Kingerlee ( <i>Chief Executive</i> ) David Bowman, BA FCA ( <i>Finance</i> ) David Kingerlee ( <i>Executive</i> )
<b>Company secretary</b>	David Bowman, BA FCA
<b>Independent auditors</b>	Grant Thornton UK LLP Registered Auditors Chartered Accountants 1 Westminster Way Oxford OX2 0PZ
<b>Bankers</b>	Lloyds TSB Bank PLC Black Horse House Wallbrook Court North Hinksey Lane Botley Oxford OX2 0QS
<b>Corporate finance advisers</b>	Charles Stanley & Co. 25 Luke Street London EC2A 4AR
<b>Property advisers</b>	King Sturge Berkeley House 9 Milton Road Swindon SN1 5JE
<b>Independent valuers</b>	Jones Lang LaSalle 22 Hanover Square London W1A 2BN
<b>Registrars</b>	Capita Registrars Plc The Registry 34 Beckenham Road Beckenham BR3 4TU
<b>Solicitors</b>	Clarks Great Western House Station Road Reading RG1 1SX
<b>Registered office</b>	Thomas House Langford Locks Kidlington Oxon OX5 1HR

## Principal activities

Highcroft Investments PLC is a group that invests in property and listed investments.

## Results and dividends

The profit for the financial year amounted to £1,253,000 compared with £1,298,000 for 2003. Included in the profit for the financial year are gains on disposals of assets after taxation of £42,000 (2003 £158,000). In accordance with the company's Articles of Association, these have been transferred to the realised capital reserve. The profit available for distribution was £1,211,000 (2003 £1,140,000).

An interim dividend of 4.05p per share was paid on 20 October 2004 and a final dividend of 7.65p per share is now recommended for payment on 8 June 2005. The total ordinary dividend of 11.7p (2003 11.0p) payable per share will absorb £604,000 of the profit available for distribution, leaving £607,000 retained.

For the review of the business, see the Chairman's Statement on page 2.

## Directors

The directors are as follows:

- Gavin Kingerlee:** Gavin Kingerlee, 68, has been a director of the company since 1970. He was chief executive from 1993 to 2001 and became Chairman in 2003. He is also a director of the Kingerlee Group of companies and SMT (London) Limited and was previously a founding director of Aurelia Plastics Limited.
- John Hewitt:** John Hewitt, 59, worked in the City of London in stockbroking for over 20 years where he became managing director of Scrimgeour Vickers. He now splits his time between advising local and international businesses and organisations, and charitable fund-raising in the medical and academic world. He was appointed as an independent non-executive director in 1999.
- Richard Stansfield:** Richard Stansfield, 47, is a chartered surveyor and director of Savills plc commercial department in Oxford and was previously a partner of Smith-Woolley. Each firm is a multi discipline practice of property consultants. He was appointed to the Board as an independent non-executive director in 2002.
- Jonathan Kingerlee:** Having been an executive officer of the company and company secretary, Jonathan Kingerlee, 44, became an executive director in 1995 and chief executive in 2001. He is also chief executive of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests.
- David Bowman:** David Bowman, 49, became finance director in 2001, having been company secretary since 1993. He is also a consultant for Practical Financial Management and a non-executive director of Traidcraft PLC.
- David Kingerlee:** Having been an executive officer of the company, David Kingerlee, 43, became an executive director in 1996. He is also an executive director and company secretary of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests.

All of the directors listed on page 6 served on the Board throughout the year. John Hewitt and Jonathan Kingerlee retire by rotation and, being eligible, offer themselves for re-election.

John Hewitt is a non-executive director and provision A.7.2 of the Combined Code requires the Board to say why he should be re-elected. John has brought to the Board an extensive experience which continues to be added to because of the variety of other work with which he is involved. This experience, together with his skills as an individual, means that he retains the ability to challenge and be independent of management. Following performance evaluation, John Hewitt's performance continues to be effective and to demonstrate commitment to the role.

## Interests of the directors in the shares of the company

The beneficial and other interests of the directors, and their families, in the shares of the company at 1 January 2004 and at 31 December 2004 were as follows:

	31 December 2004		1 January 2004	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
G J Kingerlee	170,150	—	175,150	—
J Hewitt	10,000	—	10,000	—
R N Stansfield	—	—	—	—
J C Kingerlee	92,096	—	92,096	—
D Bowman	16,660	86,448	16,660	82,748
D H Kingerlee	168,200	69,300	164,500	65,600

There is no duplication of directors' shareholdings, except in respect of:

- 69,300 of the non-beneficial holdings of David Bowman and David Kingerlee;
- 3,430 of the beneficial and non-beneficial holdings of David Bowman;
- 69,300 of the beneficial and non-beneficial holdings of David Kingerlee.

There were no changes in the interests of the directors in the period from 1 January 2005 to 23 March 2005.

### Substantial shareholders

As at 23 March 2005 the following notifications of interests in three per cent or more of the company's ordinary share capital in issue at the date of this report had been received:

		Number of shares	
		Beneficial	Non-beneficial
Kingerlee Holdings Limited	(24.4%)	1,262,400	–
D G & M B Conn and associates	(14.9%)	769,747	–
G J Kingerlee	(3.4%)	175,150	–
D H Kingerlee	(3.2%)	164,500	65,600

### Going concern

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Policy on the payment of creditors

The group normally agrees payment terms with suppliers as part of the establishment of a contract. It is the group's normal practice to pay its suppliers before the end of the month following the month of supply. This policy applies for the current financial year and applied in 2004 when average creditor days were 26 (2003 24).

### Donations

Donations to charitable organisations amounted to £3,600 (2003 £3,000). There were no political donations.

### Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

A resolution to re-appoint Grant Thornton UK LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with Section 385 of the Companies Act 1985.

By Order of the Board

### D Bowman

*Company Secretary*

23 March 2005

The information contained in this report is not subject to audit except where specified.

### Composition of the Remuneration Committee

The members of the committee are Gavin Kingerlee (Chairman), John Hewitt and Richard Stansfield. None of the committee has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

### Terms of reference

The approved terms of reference of the Remuneration Committee are as follows:

The Remuneration Committee is established in order to determine the company's policy on executive directors' remuneration and the specific remuneration packages for each of the executive directors, including any pension rights and any compensation payments.

The Remuneration Committee consults the chief executive about their proposals relating to the remuneration of other executive directors but he is not present for the discussion of his own remuneration. The committee has access to advice from independent professionals at the company's expense.

### Policy

Executive directors' remuneration is reviewed annually having regard to the work done and the profits of the business but without a fixed relationship between profits and pay. Executive directors are given service contracts not longer than three years and with no provision for compensation payments on termination, but in any event having a notice period by either party of six months. The contracts of directors in office during the year have expiry dates as follows:

	Start date	Expiry date
G J Kingerlee	1 July 2004	10 October 2006
J Hewitt	1 January 2003	30 June 2005
R N Stansfield	1 January 2003	30 June 2006
J C Kingerlee	1 January 2003	30 June 2005
D Bowman	1 July 2004	30 June 2007
D H Kingerlee	1 July 2003	30 June 2006

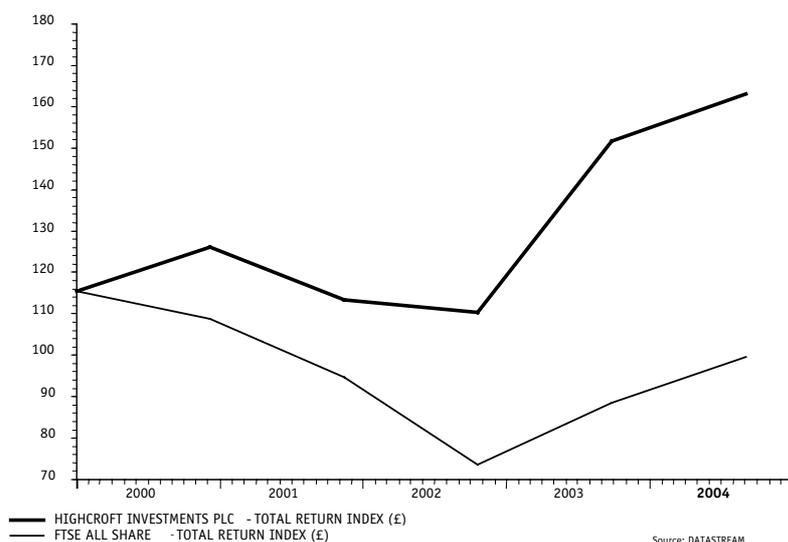
The remuneration of the non-executive directors is determined by the whole Board.

### Directors' interests

Directors' interests are shown in the Report of the Directors on page 7. They are taken from the company's Register of Directors' Interests which is open to inspection, by appointment, at the Registered Office.

**Performance Graph**

The graph below shows Highcroft's Total Shareholder Return (TSR) performance compared to the All Share index over the last five years. TSR over the last five years is defined as share price growth plus reinvested dividends. The All Share index provides a basis for comparison as a relevant equity index of which Highcroft is a constituent member.



**Directors' remuneration (audited)**

	2004 £	2003 £
Robert Craig (retired August 2003)	–	7,363
Gavin Kingerlee	12,500	11,027
John Hewitt	7,500	7,500
Richard Stansfield	8,650	7,500
Jonathan Kingerlee	29,500	28,000
David Bowman	27,010	27,980
David Kingerlee	15,750	15,000
	<b>100,910</b>	<b>104,370</b>

These figures, represent salaries earned as directors during the relevant financial year. There were no benefits in kind and no performance related payments were made. The group does not have a pension scheme for directors nor an executive share option scheme or other long term incentive plan for directors.

**G J Kingerlee**

*Chairman of the Remuneration Committee*

23 March 2005

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in operational existence for the foreseeable future.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements are prepared in accordance with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that the accounting policies adopted in the preparation of the financial statements are appropriate to the group, have been consistently applied and are supported by reasonable and prudent judgements and estimates. All applicable accounting standards have been followed.

By Order of the Board

**D Bowman**

*Company Secretary*

23 March 2005

REPORT OF THE INDEPENDENT AUDITORS  
*to the members of Highcroft Investments PLC*

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We have audited the financial statements of Highcroft Investments PLC for the year ended 31 December 2004 which comprise the group profit and loss account, the balance sheets, the group cash flow statement, the statement of total recognised gains and losses, the note of historical cost profits and losses and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, report of the directors, the unaudited part of the directors' remuneration report, the corporate governance statement and the unaudited supplementary information detailed in the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

### **GRANT THORNTON UK LLP**

*Registered Auditors*  
*Chartered Accountants*  
Oxford

23 March 2005

GROUP PROFIT AND LOSS ACCOUNT  
for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Income from fixed asset investments and other interest receivable</b>	3	1,829	1,758
Administrative expenses	4	205	209
<b>Operating profit</b>		<u>1,624</u>	<u>1,549</u>
Gains on disposals of assets	6	48	158
<b>Profit on ordinary activities before taxation</b>		<u>1,672</u>	<u>1,707</u>
Taxation	7	419	409
<b>Profit for the financial year</b>	8	<u>1,253</u>	<u>1,298</u>
Gains on disposals of assets after taxation transferred to realised capital reserve	6/17	42	158
<b>Profit available for distribution</b>		<u>1,211</u>	<u>1,140</u>
Dividends	9	604	568
<b>Profit retained</b>	17	<u>607</u>	<u>572</u>
Earnings per share:	10		
Basic		24.2p	25.1p
Adjusted		23.5p	22.1p

All operations are continuing.

BALANCE SHEETS  
at 31 December 2004

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	Note	The Group		The Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Fixed assets</b>					
Tangible assets	11	30,523	25,436	–	–
Investments	12	8,731	8,062	36,277	33,853
		<u>39,254</u>	<u>33,498</u>	<u>36,277</u>	<u>33,853</u>
<b>Current assets</b>					
Debtors	13	369	532	904	455
Cash at bank		–	1,079	–	1,079
		<u>369</u>	<u>1,611</u>	<u>904</u>	<u>1,534</u>
<b>Creditors</b>					
Amounts falling due within one year	14	1,567	1,208	624	1,486
<b>Net current (liabilities)/assets</b>		<u>(1,198)</u>	<u>403</u>	<u>280</u>	<u>48</u>
<b>Total assets less total liabilities</b>		<u>38,056</u>	<u>33,901</u>	<u>36,557</u>	<u>33,901</u>
<b>Creditors</b>					
Amounts falling due after more than one year	15	1,499	–	–	–
<b>Net assets</b>		<u>36,557</u>	<u>33,901</u>	<u>36,557</u>	<u>33,901</u>
<b>Capital and reserves</b>					
Called up share capital	16	1,292	1,292	1,292	1,292
Revaluation reserve – property	17	7,538	6,560	–	–
– other	17	4,172	3,542	31,367	29,005
Capital redemption reserve		95	95	95	95
Realised capital reserve	17	14,766	14,325	3,054	2,789
Profit and loss account	17	8,694	8,087	749	720
<b>Shareholders' funds – equity</b>	19	<u>36,557</u>	<u>33,901</u>	<u>36,557</u>	<u>33,901</u>

These financial statements were approved by the Board of Directors on 23 March 2005.

**G J Kingerlee**

**J C Kingerlee**

*Directors*

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

**GROUP CASH FLOW STATEMENT**  
for the year ended 31 December 2004

	Note	2004		2003	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	20		1,851		1,977
<b>Taxation</b>			(451)		(530)
<b>Capital expenditure and financial investment</b>					
Purchase of fixed assets – properties		(4,089)		(1,596)	
– listed investments		(1,016)		(624)	
Sale of fixed assets – properties		246		660	
– listed investments		1,249		1,334	
Net cash outflow from capital expenditure and financial investment			(3,610)		(226)
<b>Equity dividends paid</b>			(583)		(537)
<b>Cash (outflow)/inflow before financing</b>	21		(2,793)		684
<b>Financing</b>					
New medium term loan			1,568		–
<b>(Decrease)/increase in cash</b>	21		(1,225)		684

TOTAL RECOGNISED GAINS AND LOSSES AND HISTORICAL COST PROFITS AND LOSSES  
for the year ended 31 December 2004

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**Statement of total recognised gains and losses**

	2004 £'000	2003 £'000
<b>Profit for the financial year</b>	1,253	1,298
Unrealised surplus on revaluation of investment properties	1,235	1,320
Unrealised surplus on revaluation of listed and unlisted investments	864	996
Tax on valuation surplus arising in prior years attributable to properties sold in year	(92)	–
<b>Total recognised gains and losses for the year</b>	<u>3,260</u>	<u>3,614</u>

**Note of historical cost profits and losses**

	2004 £'000	2003 £'000
<b>Profit on ordinary activities before taxation</b>	1,672	1,707
Realisation of revaluation gains of previous years		
– attributable to investment properties	257	202
– attributable to listed and unlisted investments	234	(445)
<b>Historical cost profit on ordinary activities before taxation</b>	<u>2,163</u>	<u>1,464</u>
<b>Historical cost profits retained</b>	<u>1,140</u>	<u>487</u>

## 1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention except for the revaluation of fixed assets. The principal accounting policies of the group have remained unchanged from the previous year.

### Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking, Rodenhurst Estates Limited, which are both made up to 31 December 2004. Profits or losses on intra-group transactions are eliminated in full.

### Income from fixed asset investments

Income from fixed asset investments includes:

- rents due in respect of the year
- dividends received in the year
- and interest receivable for the year.

### Investment properties

The group's properties are held for long-term investment and are included in the balance sheet on the basis of market value in accordance with SSAP 19. The surpluses or deficits on annual revaluation of such properties are transferred to the property revaluation reserve. Depreciation is not provided in respect of freehold properties. Leasehold properties are not amortised where the unexpired term is over twenty years.

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the annual valuation and the amount, which might otherwise have been shown, cannot be separately identified or quantified.

Additions and disposals are recognised at the date of completion.

### Investments

Investments are included at the following valuations:

- shares in subsidiary undertaking - net assets as shown by its financial statements,
- listed investments (all listed on a recognised investment exchange) - at market value,
- unlisted investments - at market value estimated by the directors.

Gains and losses arising on revaluation are taken to the revaluation reserve.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Unprovided deferred taxation would crystallise on the sale of assets at their balance sheet value.

### 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 individual group companies' articles of association and are taken to realised capital reserve.

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**2 Segmental information**

2004	Commercial property £'000	Residential property £'000	Listed Investments £'000	Cash £'000	Total £'000
Gross income	1,586	81	312	4	1,983
Operating profit	1,360	8	280	3	1,651
Profit after taxation	955	5	249	2	1,211
Average asset value during 2004	24,955	3,025	8,397	467	36,844
Asset value at 31 December 2004	27,515	3,008	8,731	(146)	39,108

2003	Commercial property £'000	Residential property £'000	Listed Investments £'000	Cash £'000	Total £'000
Gross income	1,484	85	315	15	1,899
Operating profit	1,250	37	278	13	1,578
Profit after taxation	858	25	248	9	1,140
Average asset value during 2003	21,294	3,042	7,881	737	32,954
Asset value at 31 December 2003	22,395	3,041	8,062	1,079	34,577

The tables of segmental information shown above analyse gross income, operating profit, profit after taxation and gross assets across the four distinct activities of the business. Note:

- Income from fixed asset investments and other interest receivable is adjusted upwards by £127,000 (2003 £112,000) in respect of property expenses and by £27,000 (2003 £29,000) for the tax credit which is received on listed investment income.
- Operating profit is adjusted upwards by £27,000 (2003 £29,000) for the tax credit which is received on listed investment income.
- The allocation of overheads is subjective but applied consistently to both years.

**3 Income from fixed asset investments and other interest receivable**

	£'000	2004 £'000	£'000	2003 £'000
From investment properties:				
Rents receivable		1,667		1,569
Less property expenses		(127)		(112)
		<u>1,540</u>		<u>1,457</u>
From listed fixed asset investments	285		286	
Other interest receivable	4		15	
		<u>289</u>		<u>301</u>
		<u>1,829</u>		<u>1,758</u>

The income shown above was generated in the United Kingdom with the exception of £43,000 (2003 £47,000) of income from overseas listed fixed asset investments.

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**4 Administrative expenses**

	2004 £'000	2003 £'000
Directors and employees (note 5)	110	114
Auditors' remuneration:		
Audit services	13	13
Taxation and other	7	7
Other expenses	75	75
	205	209

**5 Directors**

	2004 £'000	2003 £'000
Remuneration in respect of directors was as follows:		
Remuneration	101	104
Social security costs	9	10
	110	114

The average number of employees of the group during the year was 6 (2003 7). More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report.

**6 Gains on disposals of assets**

	2004 £'000	2003 £'000
Gains on disposals of assets arising on sales of:		
Properties	9	82
Investments	39	76
	48	158
Net gain on disposals of assets	48	158
Corporation tax on disposals of assets	6	—
	42	158
Net gain on disposals of assets after taxation	42	158

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

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**7 Taxation**

The taxation charge at 30% (2003 30%) is based on the profit for the year and is made up as follows:

	2004	2003
	£'000	£'000
Corporation tax on operating profit	414	399
Corporation tax on disposals of assets	6	–
Prior year (overprovision)/underprovision	(1)	10
	419	409

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 30% (2003 30%). The differences are explained as follows:

	2004	2003
	£'000	£'000
Profit on ordinary activities before tax	1,672	1,707
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 30%).	502	512
Effect of:		
Income/expenses not chargeable or deductible for tax purposes	(74)	(66)
Chargeable gains less than accounting profit	(8)	(47)
Adjustments to tax charge in respect of prior periods	(1)	10
Current tax charge for period	419	409

**8 Profit for the financial year**

The company has taken advantage of section 230 of the Companies Act 1985 and has not published its own profit and loss account in these financial statements. The profit for the year of the company was £633,000 (2003 £566,000).

**9 Dividends**

	2004	2003
	£'000	£'000
Ordinary shares		
Interim dividend of 4.05p per share paid (2003 3.75p)	209	194
Proposed final dividend of 7.65p per share (2003 7.25p)	395	374
	604	568

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

## 10 Earnings per share

The calculation of earnings per share is based on the profit for the financial year of £1,253,000 (2003 £1,298,000) and on 5,167,240 (2003 5,167,240) ordinary shares of 25p each which is the weighted average number of shares in issue during the year ended 31 December 2004.

In view of the uneven nature of capital disposals, an adjusted earnings per share has also been presented, based on the profit available for distribution of £1,211,000 (2003 £1,140,000). The effect of the adjustment is as follows:

	Earnings £'000	2004 Weighted average number of shares	Per share amount pence	Earnings £'000	2003 Weighted average number of shares	Per share amount pence
Basic earnings per share	1,253	5,167,240	24.2	1,298	5,167,240	25.1
Adjustment for gains on disposals of assets	(42)	–	(0.7)	(158)	–	(3.0)
Adjusted earnings per share	<u>1,211</u>	<u>5,167,240</u>	<u>23.5</u>	<u>1,140</u>	<u>5,167,240</u>	<u>22.1</u>

## 11 Tangible assets

### The group

	Total £'000	Land and buildings (Investment properties)	
		Freeholds £'000	Long leaseholds £'000
Valuation at 1 January 2004	25,436	23,081	2,355
Additions	4,089	4,089	–
Disposals	(237)	(237)	–
Surplus on revaluation	1,235	1,080	155
Valuation at 31 December 2004	<u>30,523</u>	<u>28,013</u>	<u>2,510</u>

If land and buildings had not been revalued they would have been included on the historical cost basis at the following amounts:

	Total £'000	Land and buildings (Investment properties)	
		Freeholds £'000	Long leaseholds £'000
Cost and net book amount at 31 December 2004	<u>22,848</u>	<u>20,225</u>	<u>2,623</u>
Cost and net book amount at 31 December 2003	<u>18,762</u>	<u>16,139</u>	<u>2,623</u>

In accordance with SSAP 19, Jones Lang LaSalle have valued freehold and leasehold properties. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2004, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

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**12 Investments**

	Total £'000	Listed £'000	Unlisted £'000
<b>The group</b>			
Valuation at 1 January 2004	8,062	8,058	4
Additions at cost	1,016	1,016	–
Disposals	(1,211)	(1,211)	–
Surplus on revaluation	864	864	–
	<u>8,731</u>	<u>8,727</u>	<u>4</u>
Valuation at 31 December 2004	<u>8,731</u>	<u>8,727</u>	<u>4</u>
	Total	Other investments	
	£'000	Listed £'000	Unlisted £'000
<b>The company</b>			
Valuation at 1 January 2004	33,853	25,791	8,058
Additions at cost	1,016	–	1,016
Disposals	(1,211)	–	(1,211)
Surplus on revaluation	2,619	1,755	864
	<u>36,277</u>	<u>27,546</u>	<u>8,727</u>
Valuation at 31 December 2004	<u>36,277</u>	<u>27,546</u>	<u>8,727</u>

If investments had not been revalued they would have been included on the historical cost basis at the following amounts:

	Total £'000	Shares in subsidiary undertaking £'000	Listed £'000	Other investments Unlisted £'000
Cost at 31 December 2004	<u>3,858</u>	<u>354</u>	<u>3,500</u>	<u>4</u>
Cost at 31 December 2003	<u>4,151</u>	<u>354</u>	<u>3,793</u>	<u>4</u>

At 31 December 2004, the group held 100% of the allotted ordinary share capital and voting rights of Rodenhurst Estates Limited which is a property owning company, registered in England and Wales and operating in England.

**13 Debtors**

	The group		The company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts owed by subsidiary undertaking	–	–	887	421
Other debtors	369	532	17	34
	<u>369</u>	<u>532</u>	<u>904</u>	<u>455</u>

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**14 Creditors – amounts falling due within one year**

	The group		The company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts owed to subsidiary undertaking	–	–	–	1,045
Bank overdraft	146	–	146	–
Medium term bank loan (note 15)	69	–	–	–
Current corporation tax	278	218	27	–
Social security and other taxes	131	109	–	1
Proposed dividend	395	374	395	374
Other creditors	548	507	56	66
	<u>1,567</u>	<u>1,208</u>	<u>624</u>	<u>1,486</u>

**15 Creditors – amounts falling due after more than one year**

	2004 £'000	2003 £'000
Medium term bank loan	<u>1,499</u>	–
The medium term bank loan comprises amounts falling due as follows:		
Between one and two years	71	–
Between two and five years	238	–
Over five years	<u>1,190</u>	–
	<u>1,499</u>	–

The medium term bank loan bears interest at 1% over base payable quarterly in arrears and expiring in December 2019.

The medium term bank loan is secured by a fixed charge on a property acquisition in 2004.

**16 Share capital**

	2004 £'000	2003 £'000
Authorised 8,000,000 ordinary shares of 25p each	<u>2,000</u>	2,000
Allotted, called up and fully paid 5,167,240 (2003 5,167,240) ordinary shares of 25p each	<u>1,292</u>	1,292

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**17 Reserves**

	Non-distributable		Realised capital reserve	Distributable Profit and loss account
	Revaluation reserves			
<b>The group</b>	Property £'000	Other £'000	£'000	£'000
At 1 January 2004	6,560	3,542	14,325	8,087
Retained profit for the year	—	—	—	607
Gains on disposals of assets after taxation	—	—	42	—
Surplus attributable to assets sold in the year	(257)	(234)	491	—
Tax on surplus attributable to assets sold in the year	—	—	(92)	—
Surplus on revaluation of assets	1,235	864	—	—
	<u>7,538</u>	<u>4,172</u>	<u>14,766</u>	<u>8,694</u>
At 31 December 2004	<u>7,538</u>	<u>4,172</u>	<u>14,766</u>	<u>8,694</u>
		£'000	£'000	£'000
<b>The company</b>				
At 1 January 2004		29,005	2,789	720
Retained profit for the year		—	—	29
Gains on disposals of assets after taxation		—	34	—
Tax on surplus attributable to assets sold in the year		—	(26)	—
Surplus attributable to assets sold in the year		(257)	257	—
Surplus on revaluation of assets		2,619	—	—
		<u>31,367</u>	<u>3,054</u>	<u>749</u>
At 31 December 2004		<u>31,367</u>	<u>3,054</u>	<u>749</u>

In accordance with the Articles of Association the realised capital reserve is not distributable.

**18 Provision for liabilities and charges – deferred taxation**

Deferred taxation provided and unprovided for in the financial statements is set out below and is calculated using a tax rate of 30% (2003 30%). Unprovided deferred taxation would crystallise on the sale of assets at their balance sheet value.

	Amount provided		Amount unprovided	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>The group</b>				
Unrealised capital gains:				
Property	—	—	1,216	1,036
Investments	—	—	1,239	1,078
	<u>—</u>	<u>—</u>	<u>2,455</u>	<u>2,114</u>
	<u>—</u>	<u>—</u>	<u>2,455</u>	<u>2,114</u>
<b>The company</b>				
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Unrealised capital gains	—	—	7,140	6,575
	<u>—</u>	<u>—</u>	<u>7,140</u>	<u>6,575</u>

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

19 Reconciliation of movements in shareholders' funds	2004 £'000	2003 £'000
Profit for the financial year	1,253	1,298
Dividends	(604)	(568)
	<u>649</u>	<u>730</u>
Other recognised gains and losses:		
Surplus on revaluation of assets	2,099	2,316
Tax on prior years' surplus now realised	(92)	–
	<u>2,656</u>	<u>3,046</u>
Net increase in shareholders' funds	2,656	3,046
Shareholders' funds at 1 January 2004	33,901	30,855
	<u>36,557</u>	<u>33,901</u>
Shareholders' funds at 31 December 2004	<u>36,557</u>	<u>33,901</u>

20 Reconciliation of operating profit to net cash flow from operating activities	2004 £'000	2003 £'000
Operating profit	1,624	1,549
Decrease in debtors	163	384
Increase in creditors	64	44
	<u>1,851</u>	<u>1,977</u>
Net cash inflow from operating activities	<u>1,851</u>	<u>1,977</u>

21 Analysis of changes in net funds/(debt)	1 January 2004 £'000	Cash flow £'000	31 December 2004 £'000
Cash at bank	1,079	(1,079)	–
Overdraft	–	(146)	(146)
	<u>1,079</u>	<u>(1,225)</u>	<u>(146)</u>
Debt:			
Loans falling due within one year	–	(69)	(69)
Loans falling due after more than one year	–	(1,499)	(1,499)
	<u>1,079</u>	<u>(2,793)</u>	<u>(1,714)</u>
Total	<u>1,079</u>	<u>(2,793)</u>	<u>(1,714)</u>

## 22 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 2004 or 31 December 2003.

## 23 Contingent liabilities

There were no contingent liabilities at 31 December 2004 or 31 December 2003 except in respect of deferred taxation (note 18).

## 24 Related party transactions

Kingerlee Holdings Limited owns 24.4% (2003 24.4%) of the company's shares and D H Kingerlee, G J Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2004, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £21,000 (2003 £10,000) and a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2003 £14,000). The amount owed at 31 December 2004 was £19,000 (2003 £19,000). All transactions were undertaken on an arm's length basis.

Transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**25 Derivatives and other financial instruments**

Set out below are the disclosures relating to financial instruments. The group has taken advantage of the exemption available under FRS13 "Derivatives and other financial instruments" not to provide numerical disclosures in relation to short-term debtors and creditors.

**Financial instruments**

The group's financial instruments comprise medium term loans, cash, overdraft facilities and various items such as short-term debtors and creditors that arise from its operations. The main purpose of these financial instruments is to fund the group's investment strategy and the short-term working capital requirements of the business. The group has no derivatives.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year.

**Interest rate risk**

The group finances its operations through retained profits, medium term borrowings and the use of overdraft facilities. When medium term borrowings or overdraft facilities are used variable rates of interest apply. Neither fixed rate instruments nor interest rate swaps have been used. The group places any cash balances on deposit at rates which are fixed in the short term but for sufficiently short periods that there is no need to hedge against the implied risk.

**Liquidity risk**

Short term flexibility is achieved by overdraft facilities. These facilities were used during the year, for short periods of time. There were no borrowings at the beginning of the year.

**Maturity of group financial liabilities**

The analysis of group financial liabilities at 31 December 2004 is as follows:

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
In less than one year or on demand:				
Bank overdraft	146	–	146	–
Bank borrowings	69	–	–	–
In more than one year but less than two years:				
Bank borrowings	71	–	–	–
In more than two years but less than five years:				
Bank borrowings	238	–	–	–
In more than five years:				
Bank borrowings	1,190	–	–	–
Total	1,714	–	146	–

**Borrowing facilities**

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2004 in respect of which all conditions precedent had been met were as follows:

	The Group		The Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Expiring in one year or less	254	400	254	400
Expiring after two years	8,432	–	–	–
Total	8,686	400	254	400

The facilities included above are subject to review by the provider of the facilities on 30 March 2005.

**Currency risk**

The group is not exposed to currency risk as it does not trade in foreign currencies. However, 18.2% (2003 16.2%) of the listed investment portfolio is held overseas and the inherent currency risk of that part of the portfolio is taken into consideration as part of the overall assessment of investment risk.

**Fair value and maturity of financial instruments**

At 31 December 2004 the group had total borrowings of £1,714,000. Fair values were not materially different from book values at 31 December 2004.

**LARGEST INVESTMENTS OF THE GROUP**  
for the year ended 31 December 2004

**Largest property holdings of the group**

	<b>Valuation of holding at 31 December 2004 £'000</b>
Distribution centre in Kidlington, Oxfordshire	2,850
Office building in central Bristol	2,750
Radio station and office building in north Oxford	2,650
Distribution centre in Southampton	2,350
Licensed retail and restaurant property in Warrington	1,950
Retail outlet in Leamington Spa	1,900
Office building in Solihull	1,725
Retail outlet in Oxford High Street	1,600
Retail outlet in Norwich	1,575
Retail outlets in Cirencester	1,515

The value of the above ten properties represents 68% (2003 71%) of the value of the property investment portfolio of the group at 31 December 2004.

**Largest equity holdings of the group**

	<b>Valuation of holding at 31 December 2004 £'000</b>
HSBC Holdings plc	439
Royal Bank of Scotland plc	438
GlaxoSmithkline plc	426
ANZ Banking Group Limited	420
Tesco plc	290
Slough Estates plc	284
Rio Tinto plc	268
Bank of Nova Scotia	265
The Shell Transport and Trading Company plc	249
Aviva	206

The value of the above ten investments represents 38% (2003 39%) of the value of the listed investment portfolio of the group at 31 December 2004.

## SEVEN YEAR SUMMARY

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000	1998 £'000
Investment properties – at annual valuation	30,523	25,436	23,098	22,727	21,352	19,637	15,291
Listed investments – at market value	8,731	8,062	7,700	9,654	11,855	11,333	9,822
<b>Total net assets</b>	<b>36,557</b>	<b>33,901</b>	<b>30,855</b>	<b>32,018</b>	<b>32,612</b>	<b>30,601</b>	<b>27,511</b>
<b>Net asset value per share in issue at end of each year</b>	<b>707p</b>	656p	597p	620p	631p	592p	507p
<b>Revenue</b> (excluding gains/losses on disposals of assets)	<b>£'000</b>	£'000	£'000	£'000	£'000	£'000	£'000
Gross income from property	1,667	1,569	1,517	1,412	1,355	1,246	1,378
Income from other investments	289	301	322	334	407	350	393
Operating profit	1,624	1,549	1,496	1,384	1,373	1,329	1,379
Profit available for distribution	1,211	1,140	1,074	1,069	1,051	1,024	985
<b>Share capital</b>							
Average number in issue (000's)	5,167	5,167	5,167	5,167	5,167	5,216	5,427
Basic earnings per ordinary share	24.2p	25.1p	22.6p	16.1p	19.2p	26.1p	23.7p
Adjusted earnings per ordinary share	23.5p	22.1p	20.8p	20.6p	20.3p	19.6p	18.1p
<b>Dividends paid per ordinary share</b>	<b>11.70p</b>	11.00p	10.15p	9.25p	8.50p	7.80p	7.10p
All-Share Index	2410	2207	1894	2524	2984	3242	2674
FTSE 100 Share Index	4814	4477	3940	5217	6222	6930	5883
Highcroft year end share price	505p	480p	357p	385p	430p	402p	310p
Retail Price Index	189.9	183.5	178.5	173.4	172.2	167.3	164.4

The company's share price is quoted in the Financial Times and included in the "Real Estate" category. Shareholders should note that the current quotation of the company's shares can also be obtained directly from the Stock Exchange by telephoning FT Cityline - 0906 003 2888 or 0906 843 2888. Calls are charged at 60p per minute at all times.

## NOTICE OF ANNUAL GENERAL MEETING

29

**NOTICE IS HEREBY GIVEN** that the seventy-seventh Annual General Meeting of the company will be held at The Dog House Hotel, Frilford Heath, Oxon, OX13 6QJ on Wednesday, 25 May 2005 at 12 noon, for the following purposes.

To transact the following ORDINARY business:

- 1 To receive and consider the report and financial statements for the year ended 31 December 2004.
- 2 To approve a final dividend of 7.65p per share on the ordinary shares of the company for the year ended 31 December 2004 to be paid on 8 June 2005 to shareholders registered on 6 May 2005.
- 3 In accordance with the Companies Act 1985 s241A(3) to approve on an advisory only basis the remuneration report contained in the annual report including the company's remuneration policy for directors and the level of directors' remuneration disclosed therein.
- 4 To re-elect John Hewitt as a director of the company (retiring by rotation).
- 5 To re-elect Jonathan Kingerlee as a director of the company (retiring by rotation).
- 6 To re-appoint Grant Thornton UK LLP as auditors.
- 7 To authorise the directors to fix the remuneration of the auditors for the ensuing year.
- 8 To transact any other ordinary business of the company.

By Order of the Board

**D Bowman**  
*Company Secretary*

Registered Office  
Thomas House  
Langford Locks  
Kidlington  
Oxon  
OX5 1HR

23 March 2005

Notes:

- a Any member entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him or her; such proxy need not be a member of the company.
- b Directors' service contracts will be available for inspection, by appointment, from 23 March 2005 until 25 May 2005 at the Registered Office and at the place of the Annual General Meeting from 11.45 am on 25 May 2005 until the conclusion of the Annual General Meeting.
- c Biographical details for John Hewitt and Jonathan Kingerlee are on page 7.
- d Please note that a detachable proxy form is included as page 31.
- e To be valid the proxy must be deposited with the company's Registrars at Capita IRG PLC, The Registry, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours before the time fixed for the meeting.
- f Please note that in a departure from previous practice, minutes will not be read out at the meeting but several copies will be made available for circulation.



HIGHCROFT INVESTMENTS PLC  
PROXY FORM

I/We .....  
(PLEASE COMPLETE IN BLOCK CAPITALS)

of .....

being a member/members of HIGHCROFT INVESTMENTS PLC, hereby appoint .....  
or failing him GAVIN KINGERLEE of Thomas House, Langford Locks, Kidlington, Oxon, OX5 1HR, or failing him DAVID BOWMAN of  
Thomas House, Langford Locks, Kidlington, Oxon\*, or failing him the Chairman of the Annual General Meeting as my/our proxy to vote for me/us  
and on my/our behalf at the Annual General Meeting to be held on 25 May 2005 and at any adjournment thereof.

I/We desire to vote:

RESOLUTIONS	**For	**Against
ORDINARY RESOLUTIONS		
1. To receive and consider the report and financial statements for the year ended 31 December 2004		
2. To approve a final dividend of 7.65p per share on the ordinary shares of the company for the year ended 31 December 2004 to be paid on 8 June 2005 to shareholders registered on 6 May 2005		
3. In accordance with the Companies Act 1985 s241A(3) to approve on an advisory only basis the remuneration report contained in the annual report including the company's remuneration policy for directors and the level of directors' remuneration disclosed therein		
4. To re-elect John Hewitt as a director of the company (retiring by rotation)		
5. To re-elect Jonathan Kingerlee as a director of the company (retiring by rotation)		
6. To re-appoint Grant Thornton UK LLP as auditors		
7. To authorise the directors to fix the remuneration of the auditors for the ensuing year		

SIGNED this ..... day of ..... 2005

.....

.....



\* If it is desired to appoint another person as proxy, these names should be deleted and the name of the proxy inserted. A member may appoint a proxy of his or her choice, and such proxy need not be a member of the company.

\*\* Please indicate, by inserting X in the appropriate box, the manner in which the proxy is to vote. Unless otherwise instructed, the proxy will vote or abstain as he or she thinks fit.

NOTE In the case of a corporation the proxy must be appointed under its common seal or under the hand of an official or attorney duly authorised in writing. In the latter case, the authority should accompany the proxy form. In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person, or by proxy, will be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members.

To be valid, this proxy form, duly signed, must be deposited at the address on the reverse of this proxy form not less than 48 hours before the time of the meeting, or any adjournment thereof.

SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No. MB122

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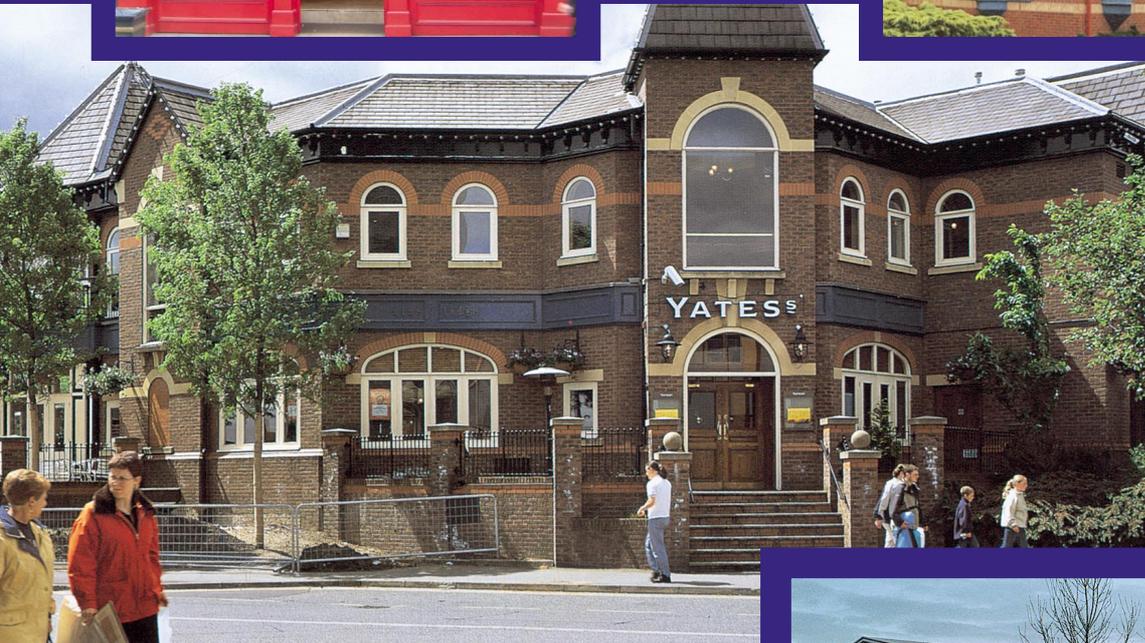


**Capita Registrars Plc (PROXIES)**  
**PO BOX 25**  
**Beckenham**  
**Kent**  
**BR3 4BR**

FIRST FOLD

THIRD FOLD





HIGHCROFT INVESTMENTS PLC

Thomas House

Langford Locks

Kidlington

Oxon OX5 1HR