



Highcroft Investments PLC

Report & Financial Statements
31 December 2008

Highcroft Investments PLC has a sound property portfolio and strong liquid assets in UK equities.

Despite adverse trading conditions the group has performed relatively well and we believe that our property portfolio is well placed for the medium term. Gearing is still comparatively low, demonstrating the underlying strength of the business.

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◆ Bank premises in Petersfield let to Barclays
▲ Vacant retail unit in Yeovil
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The report of the directors on pages 5 to 11 and the Directors' remuneration report on pages 12 and 13 have each been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Highcroft Investments PLC.

The directors submit to the members their report and accounts of the Group for the year ended 31 December 2008. Pages 1 to 13, including the chairman's introduction, corporate governance statement, report of the directors and directors' remuneration report form part of the report of the directors.

Key Highlights

- Gross property income steady at £2,124,000
- Profit for the year on revenue activities up 23.0% to £1,922,000
- Basic loss per share on all activities was 179.3p
- Adjusted earnings per share (on revenue activities) was 37.3p
- Net asset value per share down 24.2% to 612p
- Total property income distribution 18.4p per share

Dear Shareholder

2008 was clearly a very difficult year with property and equity markets recording significant falls as the credit crisis and subsequent signs of world-wide recession impacted on investor confidence. My cautionary comments in the Report on 2007 were, with the benefit of hindsight, still too sanguine. To say that I was not alone in that respect is of little comfort.

In the event, the decline in the value of our property portfolio, and to a lesser extent our equity portfolio, was not as great as the overall falls recorded nationally. This is no great consolation and I record the fact only as some reassurance to shareholders that our medium and long term strategy of trying to invest in good quality, defensive, assets will hopefully continue to insulate us to some degree against the worst of market declines. That having been said, I feel I must draw your attention to the fact that ten of our properties – including two purchased as long ago as 1997 – are now valued below cost. All-in-all, this has meant that net asset value per share had fallen by 24.2% to 612p.

There are some brighter points to which I would like to draw your attention.

- Our property income was very resilient despite having two voids (in Yeovil and Warrington) – the first for a number of years.
- Dividend growth in our equity portfolio was around 10%, although some of that increase was represented by one-off payments.
- Our distributable profits rose by over 23% as a result of our conversion to REIT status.

"Clearly the market is likely to remain difficult for some time. We are, though, well positioned to take advantage of market opportunities and any distress selling which might occur."

We are pleased to have been able to continue with our progressive dividend policy. For the sake of prudence, we have set the total 2008 property income distribution at the minimum required by our REIT status and have made no distribution from our non-property profits. But for the delay in the conversion to a REIT by three months, the property income distribution would have been 4.95p per share greater.

Finally, I do believe we are well placed to take advantage of the current property malaise. Unlike many companies, we have minimal borrowings and a liquid equity portfolio. We have reasonable hopes, therefore, that over the next 18 months we will be able to enhance our property portfolio by adding good quality properties on decent yields. This should enable us to build in medium term growth in asset values and dividends.

We look forward to welcoming shareholders to our AGM which this year is to be held on 12 May (please note the change of location) when we intend to make our first interim management statement for 2009.

J S Hewitt

John Hewitt
Chairman

11 March 2009

Application of Principles

The company has applied the principles of good governance contained in the Combined Code 06 (Principles of Good Governance and Code of Best Practice) 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 06 except that no performance related payments were made to directors, which is not in accordance with Code provision B.1.1. The remuneration committee and board believe that the directors do not need to have performance related payments in order to be motivated to give their best in serving the interests of shareholders.

Board effectiveness

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

- approving group 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 2008 the number of board and committee meetings and individual participation was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	8	3	1	0
J Hewitt	8/8	3/3	1/1	0
R N Stansfield	7/8	3/3	1/1	0
C J Clark	8/8	3/3	1/1	0
J C Kingerlee	8/8	Not applicable	Not applicable	Not applicable
D Bowman	8/8	3/3 (part)	Not applicable	Not applicable
D H Kingerlee	8/8	Not applicable	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. The chairman is John Hewitt, the senior independent director is Richard Stansfield and the chief executive is Jonathan Kingerlee. The board members' biographies are on page 10.

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.

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.

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.

Directors' remuneration

The directors' remuneration report is on page 12. 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

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 AGM is used to communicate with investors and documents are sent to shareholders at least 20 working days before the meeting. The chairman and chairmen of the audit and remuneration committees are available to answer relevant questions. 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. 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. We have no institutional shareholders.

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 4, and that of the auditor on page 14. A statement on going concern appears on page 11.

The audit committee of the board comprises all the non-executive directors and is chaired by Christopher Clark. The committee meets not less than three times a year to review the scope and findings of the auditor's work on audit and non-audit issues, the interim and annual reports prior to their publication, the application of the company's accounting policies and any changes to the financial reporting requirements. The audit committee also plays an important part in reviewing the company's systems of internal control which are described below. The audit committee reports on each of its meetings at the next board meeting.

The audit committee reviews the terms of engagement with the external auditor and ensures that the external auditor is independent via the segregation of audit-related work from other accounting functions and has referenced fees with similar auditors.

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 the external auditor arising from the audit and dealing with significant control matters raised
- regular board meetings to monitor continuously any areas of concern
- annual review of risks and internal controls
- annual review of compliance with Combined Code.

The board has considered the need for an internal audit function but has decided that the size of the group does not justify it at present. However, it does review the position annually.

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 2008 and the period up to date of approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the 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 International Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- state, in respect of the company's accounts, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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.

In so far as the directors are aware:

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

To the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertaking included in the consolidation taken as a whole; and
- report of the directors includes a fair review of the development and performance of the business and the position of the company and the undertaking included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

11 March 2009

The directors are pleased to present the eighty first annual report together with the audited financial statements of the group.

Principal activities

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

Results and dividends

The trading results for the year and the group's financial position at the end of the year are shown in the financial statements, and are discussed further in the business review below.

Since conversion to a REIT in April 2008, we are obliged to pay at least 90% of net rental income, as calculated for tax purposes, as a property income distribution. The total property income distributions for the year will be 18.4p per share as compared with total dividends in respect of 2007 of 14.25p. Shareholders will be aware that dividends carry a tax credit whereas property income distributions are declared gross of basic income tax. The board is proposing a final property income distribution on the ordinary shares in respect of 2008 of 11.4p (2007 9.25p dividend) per share.

The dividends paid to shareholders during 2008 were as follows:

	2008 £'000	2007 £'000
2007 Final: 9.25p per ordinary share (2006 9.00p)	**478**	465
2008 Interim: 7.00p per ordinary share (2007 5.00p)	**362**	258
	840	723

We intend to maintain a policy of increasing distributions, although adherence to the REIT obligations may result in a less even pattern than has historically been the case.

Business review

Financial performance – revenue activities

Gross income for the year ended 31 December 2008 was £2,574,000 (2007 £2,532,000).

Analysis of gross income	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Commercial property income	**2,050**	2,062	1,933	1,833	1,586
Residential property income	**74**	64	105	84	81
Gross income from property	**2,124**	2,126	2,038	1,917	1,667
Income from equity investments	**450**	406	489	339	285
Total income	**2,574**	2,532	2,527	2,256	1,952

Underlying commercial property income has fallen because of the voids at Warrington, for half the year, and Yeovil for the whole year. In 2007 these two properties provided a total of £220k in commercial rental income. Underlying commercial property income was boosted by four rent reviews which added £57k in backdated rents to 2008. Commercial property income was also boosted by two dilapidations claims totalling £92k.

2008's residential property income benefited from a full year of occupancy of the flats in Cirencester, though future residential income will be reduced because of the sale of one property in the second quarter.

Property operating expenses are high in 2008 because of the dilapidations expenditure, bad debts, rates and insurance on vacant properties and rent review and other fees.

2008's income from equity investments benefited from more special dividends than 2007 and so we saw an 11% increase.

Analysis of administrative and net finance expenses	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Directors' remuneration	**166**	133	141	112	110
Auditor's remuneration including other services	**34**	31	32	36	20
Fees in respect of conversion to a REIT	**47**	147	–	–	–
Other expenses	**77**	80	74	74	75
Administrative expenses	**324**	391	247	222	205
Net finance expenses/(income)	**61**	209	188	84	(4)
Total expenses	**385**	600	435	306	201

The ongoing running costs of the business remain well controlled. Three factors are relevant to 2008:

- The costs of the second extraordinary general meeting to convert the group to a REIT are recognised in 2008.
- The additional time and effort in both 2007 and 2008 required to achieve REIT conversion was reflected in the directors' salaries for 2008.
- The status of Highcroft's income, which changed for VAT purposes as a result of HMRC's acceptance of a recent court ruling, meant that it became beneficial for the company to register for VAT and reclaim input tax for the three preceding years, giving a benefit of £38,000 to 2008.

Summary of profit before tax and income tax expense on revenue activities	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Profit before tax	**1,889**	1,833	1,956	1,825	1,624
Income tax credit/(expense)	**33**	(271)	(456)	(459)	(413)
Distributable profit	**1,922**	1,562	1,500	1,366	1,211

Financial performance – capital activities

Commercial property values were on a downward curve during 2008. While the nature of our portfolio means that the fall in value was less than in the market at large, the fall in several individual values means that a number of properties are valued at less than cost. The reduction in values, which mean ten of our properties are valued below cost, is not expected to be permanent but no-one can predict with certainty how soon and how quickly values will recover.

In their report to us, Jones Lang LaSalle have noted that, in the current property market, there have been few transactions recently and therefore scarce evidence of the prices at which willing buyers and sellers are prepared to transact. Therefore, they have advised us that the element of professional judgement they have used in reaching their valuation has been greater than in normal times when there is an abundance of clear market evidence.

Equity markets fell dramatically in 2008 and our portfolio was particularly affected because of our holdings in banks but our portfolio is generally a defensive one and so has still performed better than the market.

Analysis of gains and losses on property – capital activities	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Realised gains on investment property	**–**	107	320	44	9
Realised losses on investment property	**(5)**	(6)	(33)	(36)	–
	(5)	101	287	8	9
Revaluation gains on investment property	**59**	388	2,732	3,464	1,042
Revaluation losses on investment property	**(8,985)**	(3,819)	(398)	(65)	(139)
	(8,926)	(3,431)	2,334	3,399	903

Analysis of gains and losses on equities – capital activities	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Realised gains on equity investments	**5**	272	73	77	89
Realised losses on equity investments	**(446)**	(245)	(159)	(45)	(51)
	(441)	27	(86)	32	38
Revaluation gains on equity investments	**90**	1,320	1,382	1,671	953
Revaluation losses on equity investments	**(3,089)**	(1,045)	(150)	(97)	(88)
	(2,999)	275	1,232	1,574	865

Summary of investment activities	**2008 £'000**	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Purchase of property	**–**	6	7,437	–	4,089
Purchase of equity investments	**750**	1,164	1,029	958	1,016
	750	1,170	8,466	958	5,105

Strategy

The broad objectives of the group are unchanged. These are to enhance shareholder value via a combination of increasing asset value, increasing profits and increasing dividends. The strategy by which the board of Highcroft seeks to achieve these objectives and our commentary in respect of 2008, including relevant key performance indicators follows. The directors are well aware that the present economic circumstances are ones which change the risk environment for all organisations but continue to believe that the strategy remains appropriate.

- *To continue the focus on the commercial property portfolio.*

Allocation of total investments	**2008 %**	2007 %	2006 %	2005 %	2004 %
Commercial property	**72**	71	73	70	70
Residential property	**6**	6	5	6	8
Equity investments	**22**	23	22	24	22
Total	**100**	100	100	100	100

As we had adopted a cautious stance, we made no commercial property purchases in 2008 but since the year end bought a small property in Oxford High Street situated between two of our longstanding properties. This purchase was made in the expectation that it will allow us to create some marriage value and detailed investigations have started on how this will be achieved.

The directors will continue to seek further opportunities to expand the portfolio with investments let to good quality tenants offering medium term growth.

- *To continue to reduce the residential property portfolio when opportunities arise.*

Number of residential disposals	**2008**	2007	2006	2005	2004
Per annum	**1**	1	2	2	1

We plan for two residential disposals per year but as we sell only with vacant possession the annual rate is not within our control.

- *To have such a proportion of funds in equity investments which maintains a lower risk profile than would attach to a portfolio which was 100% invested in property.*

  We intend that equity investments will represent 15-25% of total investments and the upper limit is now a condition of our REIT status.

  The All Share Index fell by 35% during 2008 and we made a number of disposals from the equity investment portfolio which gave a net loss of £441,000 in the income statement. During the course of 2008 there was a net cash divestment from the equity investment portfolio of £107,000. Those acquisitions we made were generally to reinforce the defensive balance of the portfolio.

- *To seek property development opportunities from within our own property portfolio.*

  The expected sale of the right to add residential units to the commercial property in Staines has still not come to fruition, though we are continuing to explore the possibilities. The purchase of a third property in Oxford High Street, referred to above, presents a new opportunity to create value from within our own portfolio.

- *To seek, though not exclusively, new property acquisitions with development opportunities where the development risks can be counter-balanced by income from the same investment.*

  This continues to be one of the potential attractions which we seek from new acquisitions, although no opportunities presented themselves in 2008.

- *To use medium term gearing but to a level which would be perceived as cautious by comparison with other real estate businesses.*

  The medium term funding of the property portfolio at 31 December 2008 was £1,254,000 (2007 £1,927,000) of which £14,000 (2007 £18,000) is included as a current liability and £1,240,000 (2007 £1,909,000) as a non-current liability. The gearing ratio (i.e. medium term funding as a proportion of total equity) at 31 December 2008 was 4.0% (2007 4.7%) which places our debt funding at a very low level. Medium term debt was reduced during 2008 with cash generated from the equity portfolio and from the one property sale. The group remains a relatively attractive lending proposition but the general market for lending has changed such that in future medium term funding will only be available at higher prices than were available to us in the past.

Summary of other key performance indicators

The directors have monitored the progress of the group strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators.

Growth in gross income	2008	2007	2006	2005	2004
Commercial property income	**(1%)**	7%	5%	16%	7%
Residential property income	**16%**	(39%)	25%	4%	-5%
Total property income	**(0%)**	6%	6%	15%	6%
Income from equity investments	**11%**	(17%)	44%	19%	-10%
Total income	**2%**	0%	12%	16%	4%

Value of voids and bad debts	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Voids	**136**	14	10	–	–
Bad debts	**42**	–	–	–	–

The retail property in Yeovil was vacant throughout 2008 and the lease on the leisure property in Warrington was disclaimed by the tenant's administrator in July 2008. The rent due by the administrator is not expected to be paid and has been fully provided for as a bad debt.

Future developments for the business/Future outlook

The property market continued to fall sharply in 2008 with signs of some distress selling towards the end of the year. While we remain cautious in the short term, we believe that 2009/10 may provide useful buying opportunities which could produce decent medium term financial returns.

Equity markets have continued to be turbulent and nervous but we continue to focus on well run defensive stocks which are likely to provide consistent dividend growth. The overseas holdings, which represented 17.3% of the portfolio at 31 December 2008, have provided some hedge against Sterling weakness. The portfolio is intended to decrease the risks associated with holding 100% of shareholders funds in UK property assets. At the close of business on 10 March 2009 the equity portfolio was valued at £6.1 million.

Principal risks and uncertainties

Operational and financial risks facing the business are monitored through a process of regular assessment by the executive directors and reporting and discussion at meetings of the audit committee and the board.

The independent valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

The exceptional disruption in financial markets and in the wider business environment is a concern for all businesses. Restricted availability of credit for consumers and businesses is expected to lead to lower levels of spending, a higher level of business failures and difficulties for new ventures in raising start-up capital. The Highcroft portfolio cannot be immune from these trends.

The Group has 23 commercial tenants, so that the risks associated with the default of individual tenants are quite well spread. Our five largest tenants by current passing rent provide approximately 50% of current income. However the average credit score of these five tenants is presently 76. The weighted average credit score of the whole portfolio is currently 78.

The directors are of the opinion that a thorough risk management process is adopted which includes the formal review of all the four risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

1. *Business strategy*
   The success of Highcroft is dependent upon establishing the right business strategy to fulfil shareholder expectations. We are explicit about our strategy and assess our performance against that strategy in our annual report. In response to this risk, directors use planning and forecasting of the business to help to ensure that outcomes are satisfactory for shareholders. As noted above, we continue to believe that our strategy is the right one.

2. *Insolvency of a tenant*
   Rent collections are continuously reviewed by our property managers and regularly reviewed internally. Tenants' financial status is carefully reviewed when a new lease is entered into and when a property is acquired. The present economic environment has increased the risk of tenant insolvency which leads to bad debts and voids.

3. *Potential for unsatisfactory relationship with property advisers and managers*
   The performance of the property portfolio is key to our overall success and the professional advice we receive is critical. We work closely with our advisers to review regularly the performance of the portfolio and also that of the advisers themselves.

4. *Internal controls become ineffective, irrelevant or incomplete*
   Potential issues affecting internal control are a continuous part of our thinking. Risks and their control are reviewed annually by the audit committee and by the whole board.

Financial instruments

Information on financial instruments is included in note 19.

Environmental policy

The directors have not considered it appropriate, given the size and nature of the group's activities to have an environmental policy. However, we ensure that action is taken to comply with all relevant legislation.

Directors

The directors are as follows:

John Hewitt: John Hewitt, 63, 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.

Christopher Clark: Christopher Clark, 66, was appointed as an independent non-executive director in January 2006. He is also the non-executive chairman of Brookwell Limited and was previously a board member of Advance Focus Fund Limited and of William Ransom & Son plc. He previously worked as a stockbroker and is a Fellow of the Chartered Institute of Secretaries.

Richard Stansfield: Richard Stansfield, 51, is a chartered surveyor and formerly a director of Savills commercial department based in Oxford where he advised a number of institutional clients on their commercial property portfolios throughout the UK. He is now Land Agent for Jesus College Oxford and responsible for a fund of commercial, residential and rural properties located in England and Wales. He was appointed as an independent non-executive director in 2002.

Jonathan Kingerlee: Jonathan Kingerlee, 48, became an executive director in 1995 and chief executive in 2001. He is chief executive of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests. Other interests include companies developing and selling environmental building materials, and he is also a founder member of the Good Homes Alliance which is a trade association open to property developers committed to improving the performance of newly constructed homes.

David Bowman: David Bowman, 53, 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 and of Traidcraft Exchange Limited.

David Kingerlee: David Kingerlee, 47, 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.

Christopher Clark and David Kingerlee retire by rotation and, being eligible, offer themselves for re-election.

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 2008 and at 31 December 2008 were as follows:

	31 December 2008		1 January 2008	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
J Hewitt	**10,000**	**–**	10,000	–
C J Clark	**4,950**	**–**	1,950	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**92,096**	**–**	92,096	–
D Bowman	**17,325**	**86,354**	16,395	86,354
D H Kingerlee	**166,250**	**77,780**	166,250	77,780

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

- 77,780 of the non-beneficial holdings of David Bowman and David Kingerlee;
- 1,715 of the beneficial and non-beneficial holdings of David Bowman;
- 77,780 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 2009 to 11 March 2009.

Substantial shareholders

As at 11 March 2009 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	(25.4%)	1,310,347	–
D G & M B Conn and associates	(19.3%)	997,255	–
D H Kingerlee	(3.2%)	166,250	77,780

Going concern

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and consider that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. Cash flow forecasts are prepared annually as part of the planning and budgeting process and are monitored and reworked monthly. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Given the present economic environment, the directors are aware of the general concern affecting the assessment of the going concern basis for all businesses and have therefore taken particular care in reviewing the going concern basis this year. The group has relatively low borrowing, being its medium term borrowing which is well secured. The directors have not renewed either the company's overdraft facility or its loan facility because banks' response to the 'credit crunch' includes charging for unused facilities and this is a cost which the directors do not think is reasonable for the company to bear. The company carefully monitors its forecast cash balances in order to ensure an overdraft is not required and it has relatively liquid assets, in the form of equity investments, which it could draw on if necessary. The directors are also aware that the company is a relatively attractive lending proposition, even in the present economic environment, and expect to be able to obtain medium term finance, albeit at higher rates, as and when we identify a sufficiently attractive property investment opportunity.

The group has not encountered any difficulty in paying its trade payables in good time and has met all of the obligations of its medium term loan except that the company was in breach of one of its covenants as at 31 December 2008 when the revaluation of properties brought the net asset value of the subsidiary company, Rodenhurst Estates Limited, to less than £25,000,000. The directors have received notification from Lloyds Banking Group PLC that this breach of covenant is not considered material.

Policy on the payment of suppliers

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 at the present time and applied in 2008 when average creditor days were 29 (2007 31).

Donations

Donations to charitable organisations amounted to £4,500 (2007 £4,200). There were no political donations.

Auditor

Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on 12 May 2009.

By Order of the Board

D Bowman
Company Secretary

11 March 2009

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 Richard Stansfield (Chairman), Christopher Clark and John Hewitt. 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 any element of 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 have expiry dates as follows, subject to shareholders re-election at annual general meetings when appropriate:

	Start date	Expiry date
J Hewitt	1 July 2007	30 June 2010
C J Clark	1 January 2006	30 June 2009
R N Stansfield	1 January 2008	30 June 2011
J C Kingerlee	1 July 2008	30 June 2011
D Bowman	1 July 2007	30 June 2010
D H Kingerlee	1 July 2006	30 June 2009

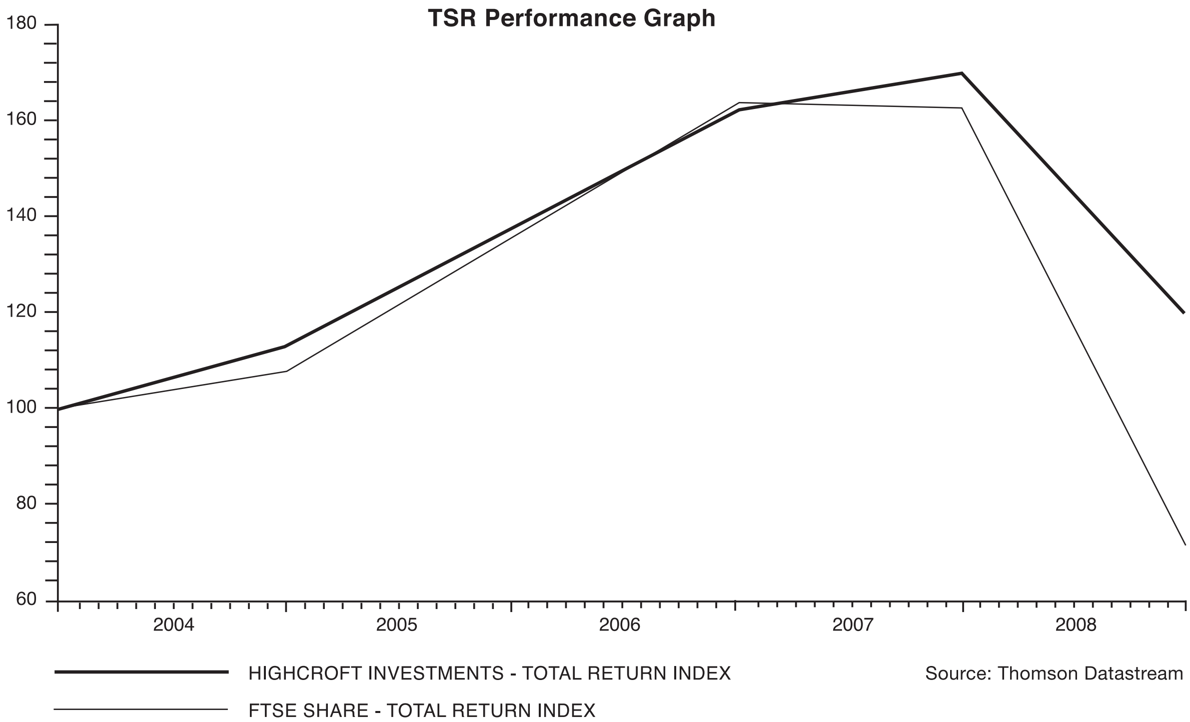
The remuneration of the non-executive directors is determined by the whole board.

Directors' interests

Directors' interests are shown in the Report of the directors on page 10. 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) 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)

	2008	2007
	£	£
John Hewitt	**18,000**	15,600
Christopher Clark	**12,200**	10,400
Richard Stansfield	**12,200**	10,400
Jonathan Kingerlee	**37,300**	33,300
David Bowman	**43,800**	34,320
David Kingerlee	**27,500**	17,700
	151,000	121,720

These figures, except as stated, represent salaries earned as directors during the relevant financial year. The conversion of the company to a REIT in April 2008 required additional time and effort. Therefore the total remuneration for 2008 took this into account. REIT conversion will not be a factor in remuneration for 2009.

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.

RN Stansfield

R N Stansfield
Chairman of the Remuneration Committee

11 March 2009

We have audited the group financial statements of Highcroft Investments PLC for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flow and notes 1 to 20. These group 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.

We have reported separately on the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2008.

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 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 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 group financial statements. The other information comprises only the Chairman's introduction, the corporate governance statement, the report of the directors, the unaudited part of the directors' remuneration report 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 group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group 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 group 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 group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford

11 March 2009

	Note	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Gross rental revenue		2,124	–	2,124	2,126	–	2,126
Property operating expenses	8	(300)	–	(300)	(99)	–	(99)
Net rental revenue		1,824	–	1,824	2,027	–	2,027
Realised gains on investment property		–	–	–	–	107	107
Realised losses on investment property		–	(5)	(5)	–	(6)	(6)
Net realised (loss)/gain on investment property		–	(5)	(5)	–	101	101
Valuation gains on investment property		–	59	59	–	388	388
Valuation losses on investment property		–	(8,985)	(8,985)	–	(3,819)	(3,819)
Net valuation losses on investment property	8	–	(8,926)	(8,926)	–	(3,431)	(3,431)
Dividend revenue		450	–	450	406	–	406
Gains on equity investments	9	–	95	95	–	1,592	1,592
Losses on equity investments	9	–	(3,535)	(3,535)	–	(1,290)	(1,290)
Net investment income		450	(3,440)	(2,990)	406	302	708
Administration expenses	3	(324)	–	(324)	(391)	–	(391)
Net operating profit/(loss) before net finance expenses		1,950	(12,371)	(10,421)	2,042	(3,028)	(986)
Finance income		27	–	27	28	–	28
Finance expenses		(88)	–	(88)	(237)	–	(237)
Net finance expenses		(61)	–	(61)	(209)	–	(209)
Profit/(loss) before tax		1,889	(12,371)	(10,482)	1,833	(3,028)	(1,195)
Income tax credit/(expense)	5	33	1,180	1,213	(271)	1,027	756
Profit/(loss) for the year	15	1,922	(11,191)	(9,269)	1,562	(2,001)	(439)
Basic and diluted earnings/(loss) per share	7	37.3p	(216.6p)	(179.3p)	30.2p	(38.7p)	(8.5p)

The total column represents the income statement as defined in IAS1. There are no other items of income and expense and so no Statement of Recognised Income and Expense is presented.

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

CONSOLIDATED BALANCE SHEET
at 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Investment property	8	**26,344**	35,545
Equity investments	9	**7,282**	10,830
Total non-current assets		**33,626**	46,375
Current assets			
Trade and other receivables	10	**223**	326
Cash		**963**	813
Total current assets		**1,186**	1,139
Total assets		**34,812**	47,514
Liabilities			
Current liabilities			
Interest-bearing loan		**14**	18
Current income tax		**440**	426
Trade and other payables	11	**826**	743
Total current liabilities		**1,280**	1,187
Non-current liabilities			
Interest-bearing loan	12	**1,240**	1,909
Deferred tax liabilities	13	**688**	2,705
Total non-current liabilities		**1,928**	4,614
Total liabilities		**3,208**	5,801
Net assets		**31,604**	41,713
Equity			
Issued share capital	14	**1,292**	1,292
Revaluation reserve – property	15	**4.080**	7,094
– other	15	**2,137**	4,203
Capital redemption reserve	15	**95**	95
Realised capital reserve	15	**17,773**	17,527
Retained earnings	15	**6,227**	11,502
Total equity	15	**31,604**	41,713

These financial statements were approved by the Board of Directors on 11 March 2009.

J Hewitt
Director

J C Kingerlee
Director

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

	2008 £'000	2007 £'000
Operating activities		
Loss for the year	**(9,269)**	(439)
Adjustments for:		
Net valuation losses on investment property	**8,926**	3,431
Loss/(profit) on disposal of investment property	**5**	(101)
Loss/(gain) on investments	**3,440**	(302)
Finance income	**(27)**	(28)
Finance expense	**88**	237
Income tax (credit)/expense	**(1,213)**	(756)
Operating cash flow before changes in working capital and provisions	**1,950**	2,042
Decrease in trade and other receivables	**103**	163
Increase/(decrease) in trade and other payables	**83**	(94)
Cash generated from operations	**2,136**	2,111
Finance income	**27**	28
Finance expenses	**(88)**	(237)
Income taxes paid	**(794)**	(521)
Net cash flows from operating activities	**1,281**	1,381
Investing activities		
Purchase of non-current assets – investment property	**–**	(6)
– equity investments	**(750)**	(1,164)
Sale of non-current assets – investment property	**271**	2,619
– equity investments	**857**	2,429
Net cash flows from investing activities	**378**	3,878
Financing activities		
New medium term loans	**–**	–
Loan repayments	**(669)**	(4,004)
Dividends paid	**(840)**	(723)
Net cash flows from financing activities	**(1,509)**	(4,727)
Net increase in cash	**150**	532
Cash at 1 January 2008	**813**	281
Cash at 31 December 2008	**963**	813

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 2008 comprise the company and its subsidiary, together referred to as the group. The accounting policies remain unchanged.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and the measurement of equity investments at fair value.

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 income statement and balance sheet. 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 constitutes the principal area of judgement exercised by the directors in the preparation of these financial statements. The fair valuations of investment properties and equity investments at fair value are carried out by external advisors who the directors consider to be suitably qualified to carry out such valuations.

New accounting standards and interpretations

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

Standards, amendments and interpretations effective in 2008

The following standards, amendments and interpretations have been adopted during the year ended 31 December 2008: IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements – Capital disclosures", introduce new disclosures relating to financial instruments. These standards did not have any impact on the classification and valuation of the group's financial instruments.

Standards, amendments and interpretations effective in 2008 but not relevant

The following standards, amendments and interpretations are mandatory for the first time for the current accounting period but are not relevant to the group's report for 2008:

- IFRIC 10, "Interim financial reporting and impairment".
- IFRIC 11, "Group and treasury share transaction"

Interpretations to existing standards that are not yet effective and have not been adopted early by the group

The following interpretations to existing standards have been published that are mandatory for the group's future accounting but which the group has not adopted early:

- IAS 1 (revised), "Presentation of financial statements – comprehensive revision including a statement of comprehensive income" (effective for the group from 1 October 2009), impacting the presentational disclosure of the financial statements, but will have no impact on the carrying values of items.
- IAS 27, (revised), "Consolidation and separate financial statements – consequential amendment arising from amendments to IFRS 3" (effective for the group 1 October 2009).
- IFRS 2, (Amendment), "Share based payments – amendment to vesting conditions and cancellations" (effective for the group 1 October 2009).
- IAS 31, "Investments in joint ventures – consequential amendment arising from amendment to IFRS 3" (effective for the group 1 October 2009).
- IAS 23, (Amendment), "Borrowing Costs" becomes effective for the group from 1 October 2009. The revised standard will have no impact on the group's financial statements. The group's properties are included in the financial statements at fair value and it will not be required to capitalise interest in respect of any development projects carried at fair value.
- IFRS 8, "Operating segments" will become effective for the group on 1 October 2009. The standard is not expected to have any material impact on the format of the group's financial reporting, as the group has only one reportable segment within its business.
- IFRIC 15, "Construction of real estate" (effective for the Group 1 October 2009).

1 Significant accounting policies (continued)

Interpretations to existing standards that are not yet effective and are not relevant for the group's operations

- IFRS 3, (Revised), "Business combinations – comprehensive revision on applying the acquisition method"
- IAS 28, "Investments in Associates – consequential amendment arising from amendments to IFRS 3"
- IFRIC 12, "Service concession arrangements"
- IFRIC 13, "Customer loyalty programmes"
- IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"
- IFRIC 16, "Hedges of a net investment in a foreign operation"

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary, Rodenhurst Estates Limited, which are both made up to 31 December 2008, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue

Rental revenue from investment property is recognised in the income statement on a straight line basis over the term of the lease.

Dividend revenue

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

Interest income

Interest income and expense is recognised in the income statement under the effective interest method as they accrue. Interest income is recognised on a gross basis, including withholding tax, if any.

Expenses

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

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.

Income tax

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

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of equity investments, using tax rates enacted or substantially enacted at the balance sheet date. From April 2008, no deferred tax is recognised on investment property and all deferred tax liabilities relating to investment property have been released to the income statement.

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 portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

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

Equity investments

The directors have adopted the fair value option for its qualifying financial assets on the basis that do so is in accordance with its documented investment strategy.

Trade and other receivables

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

Cash

Cash comprises cash available at less than three months' notice.

Trade and other payables

Trade and other payables are recognised at fair value on initial recognition and subsequently at amortised cost.

Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable costs. Thereafter the carrying amount is stated at amortised cost obtained using the effective interest rate method.

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.

Segment reporting

A segment is a distinguishable component of the group that is engaged in generating income and expenses (business segment) which is subject to risks and rewards that are different from those of other segments. The business segment is considered to be the primary reporting segment. There is no secondary reporting because the group trades entirely in the United Kingdom.

2 Segment reporting

The business segment reporting format reflects the group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group is comprised of the following main business segments:

- commercial property comprising retail outlets, offices and warehouses
- residential property comprising mainly single-let houses
- financial assets comprising exchange-traded equity investments

	2008	2007
	£'000	£'000
Commercial property		
Gross income	**2,050**	2,062
Loss for the year	**(7,494)**	(1,521)
Assets	**25,478**	34,088
Liabilities	**2,322**	3,429
Residential property		
Gross income	**74**	64
Profit for the year	**373**	257
Assets	**2,048**	2,553
Liabilities	**66**	656
Financial assets		
Gross income	**450**	406
(Loss)/profit for the year	**(2,148)**	825
Assets	**7,286**	10,873
Liabilities	**820**	1,716
Total		
Gross income	**2,574**	2,532
Loss for the year	**(9,269)**	(439)
Assets	**34,812**	47,514
Liabilities	**3,208**	5,801

3 Administrative expenses

	2008	2007
	£'000	£'000
Directors (note 4)	**166**	133
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**9**	4
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**10**	14
Tax services	**13**	11
Other services pursuant to legislation	**2**	2
Fees in respect of conversion to a REIT	**47**	147
Other expenses	**77**	80
	324	391

4 Directors

	2008 £'000	2007 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**151**	122
Social security costs	**15**	11
	166	133

The average number of employees, all of whom were directors, of the group during the year was 6 (2007 6). More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report.

5 Income tax expense

	2008 £'000	2007 £'000
Current tax:		
On revenue profits	**102**	341
On capital profits	**–**	37
REIT conversion charge	**668**	–
Prior year underprovision/(overprovision)	**34**	(31)
	804	347
Deferred tax (note 13)	**(2,017)**	(1,103)
	(1,213)	(756)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28.5% (2007 30%). The differences are explained as follows:

	2008 £'000	2007 £'000
Loss before tax	**(10,482)**	(1,195)
Loss before tax multiplied by standard rate of corporation tax in the UK of 28.5% (2007 30%).	**(2,987)**	(358)
Effect of:		
Tax exempt revenues	**(96)**	(93)
Profit not taxable as a result of REIT conversion	**(339)**	–
REIT conversion charge	**668**	–
Chargeable losses less than accounting profit	**1,507**	7
Adjustments to tax charge in respect of prior periods	**34**	(31)
Deferred taxation change of rate	**–**	(281)
Income tax credit	**(1,213)**	(756)

6 Dividends

On 11 March 2009, the directors declared a property income distribution of 11.4p per share (2007 9.25p dividend) payable on 3 June 2009 to shareholders registered at 8 May 2009.

The following property income distributions (PID) and dividends have been paid by the group.

	2008 £'000	2007 £'000
2007 Final: 9.25p per ordinary share (2006 9.00p)	**478**	465
2008 Interim PID: 7.00p per ordinary share (2007 5.00p)	**362**	258
	840	723

7 (Loss)/earnings per share

The calculation of earnings per share is based on the total loss for the year of £9,269,000 (2007 £439,000) and on 5,167,240 shares (2007 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2008 and throughout the period since 1 January 2007. There are no dilutive instruments.

In order to draw attention to the impact of valuation gains and losses which are included in the income statement 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 £1,922,000 (2007 £1,562,000) has been calculated.

	2008	2007
	£'000	£'000
Earnings:		
Basic loss for the year	**(9,269)**	(439)
Adjustments for:		
Net valuation losses on investment property	**8,931**	3,330
Losses/(gains) on investments	**3,440**	(302)
Income tax on gains and losses	**(1,180)**	(1,027)
Adjusted earnings	**1,922**	1,562
Per share amount:		
Loss per share	**(179.3p)**	(8.5p)
Adjustments for:		
Net valuation losses on investment property	**172.8p**	64.4p
Losses/(gains) on investments	**66.6p**	(5.8p)
Income tax on gains and losses	**(22.8p)**	(19.9p)
Adjusted earnings per share	**37.3p**	30.2p

8 Investment property

	2008	2007
	£'000	£'000
Valuation at 1 January 2008	**35,545**	41,487
Additions	**–**	6
Disposals	**(275)**	(2,517)
Revaluation losses	**(8,926)**	(3,431)
Valuation at 31 December 2008	**26,344**	35,545

In accordance with IAS 40, the carrying value of investment properties is the fair value of the property as determined by Jones Lang LaSalle. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2008, 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.

The independent valuation of all property assets includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

At 31 December 2008, investment property with a carrying amount of £4,900,000 is subject to registered debentures to secure medium-term bank loans (see note 12).

8 Investment property (continued)

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

	2008 £'000	2007 £'000
Less than one year	**1,828**	2,024
Between one and five years	**6,786**	6,899
More than five years	**9,525**	10,660
Total	**18,139**	19,583

Property operating expenses are analysed as follows:

	2008 £'000	2007 £'000
Arising from generating rental income	**183**	86
Not arising from generating rental income	**117**	13
Total	**300**	99

9 Equity investments

	2008 £'000	2007 £'000
Valuation at 1 January 2008	**10,830**	11,794
Additions	**750**	1,164
Disposals	**(1,299)**	(2,403)
Revaluation (losses)/gains	**(2,999)**	275
Valuation at 31 December 2008	**7,282**	10,830

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

	2008 £'000	2007 £'000
Realised gains on equity investments	**5**	272
Revaluation gains on equity investments	**90**	1,320
	95	1,592

	2008 £'000	2007 £'000
Realised losses on equity investments	**446**	245
Revaluation losses on equity investments	**3,089**	1,045
	3,535	1,290

10 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**194**	45
Bad debt provision	**(41)**	–
Other receivables	**70**	281
	223	326

Amounts due from tenants at each year end includes amounts invoiced on 25 December in respect of rents in advance for the period 25 December to 24 March. At 31 December 2008, amounts due from tenants which were more than 90 days overdue, which related to rents for 2008, totalled £55,000 (2007 £9,000). Provisions against these overdue amounts totalled £41,000 (2007 Nil).

11 Trade and other payables

	2008 £'000	2007 £'000
Deferred income	**466**	482
Social security and other taxes	**104**	81
Other payables	**256**	180
	826	743

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

12 Interest bearing loan

	2008 £'000	2007 £'000
Medium term bank loan	**1,240**	1,909
The medium term bank loan comprises amounts falling due as follows:		
Between one and two years	**28**	37
Between two and five years	**165**	220
Over five years	**1,047**	1,652
	1,240	1,909

The medium term bank loan is secured by a fixed charge on three investment properties which have a carrying value of £4,900,000 (note 8), bears interest at 1% over base payable quarterly in arrears and expires in 2021.

13 Deferred tax liabilities

Deferred taxation, arising from revaluation gains, provided for in the financial statements is set out below and is calculated using a tax rate of 28% (2007 28%).

2008	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2008	1,124	1,581	2,705
Reversed in the year	(1,124)	(893)	(2,017)
At 31 December 2008	**–**	**688**	**688**

13 Deferred tax liabilities (continued)

2007

	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2007	2,340	1,871	4,211
Transfer to current tax on sale of assets	(317)	(86)	(403)
Reversed in the year	(899)	(204)	(1,103)
At 31 December 2007	1,124	1,581	2,705

14 Share capital

	2008 £'000	2007 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2007 5,167,240) ordinary shares of 25p each	**1,292**	1,292

The directors monitor capital on the basis of the carrying amount of equity plus its medium term debt as presented on the balance sheet and operate within the requirements of the Articles of Association and of the group's loan facility agreement. The Articles of Association permit borrowings up to 50% of total equity shown in the latest available audited financial statements and the current bank loans are for £1,254,000. Our debt obligations have been fully complied with since the first draw down in 2005.

	2008 £'000	2007 £'000
Total equity	**31,604**	41,713
Medium term debt	**1,254**	1,927
Medium term debt as a percentage of total equity	**4.0%**	4.6%

15 Total equity

2008

	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2008	1,292	7,094	4,203	95	17,527	11,502	41,713
Loss for the year	–	–	–	–	–	(9,269)	(9,269)
Dividends to shareholders	–	–	–	–	–	(840)	(840)
Non-distributable items recognised in income statement:							
Revaluation (losses)/gains	–	(8,926)	(2,999)	–	–	11,925	–
Tax on revaluation (losses)/gains	–	955	893	–	–	(1,848)	–
Realised gains	–	–	–	–	(446)	446	–
Surplus attributable to assets sold in the year	–	(272)	(420)	–	692	–	–
Excess of cost over revalued amount taken to retained earnings	–	5,229	460	–	–	(5,689)	–
At 31 December 2008	**1,292**	**4,080**	**2,137**	**95**	**17,773**	**6,227**	**31,604**

15 Total equity (continued)

2007

	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2007	1,292	10,169	4,601	95	16,055	10,663	42,875
Loss for the year	–	–	–	–	–	(439)	(439)
Dividends to shareholders	–	–	–	–	–	(723)	(723)
Non-distributable items recognised in income statement:							
Revaluation (losses)/gains	–	(3,431)	275	–	–	3,156	–
Tax on revaluation (losses)/gains	–	861	203	–	–	(1,064)	–
Realised gains	–	–	–	–	91	(91)	–
Surplus attributable to assets sold in the year	–	(822)	(962)	–	1,784	–	–
Tax on surplus attributable to assets sold in the year	–	317	86	–	(403)	–	–
At 31 December 2007	1,292	7,094	4,203	95	17,527	11,502	41,713

Revaluation reserves include annual revaluation gains and losses, less attributable deferred taxation. The realised capital reserve includes realised revaluation gains and losses, less attributable income tax. In accordance with the Articles of Association the revaluation and realised capital reserves are not distributable.

16 Capital commitments

In December 2008, contracts were exchanged on the purchase of a property in Oxford High Street. The contract value was £266,000 and completion took place in January 2009. There were no capital commitments at 31 December 2007.

17 Contingent liabilities

There were no contingent liabilities at 31 December 2008 or 31 December 2007.

18 Related party transactions

Kingerlee Holdings Limited owns 25.4% (2007 25.3%) of the company's shares and D H Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2008, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £1,144 (2007 £272) and a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2007 £14,000). The amount owed at 31 December 2008 was nil (2007 Nil). All transactions were undertaken on an arm's length basis.

During the year, the company received from its wholly owned operating subsidiary administration fees totalling £128,000 (2007 £50,000), dividends totalling £800,000 (2007 £700,000) and interest in respect of inter-company debt totalling £164,000 (2007 Nil). The net amount owed to the company by the subsidiary undertaking at 31 December 2008 was £3,657,000 (2007 £3,248,000).

19 Financial instruments and financial risk

Categories of financial instruments

	2008 Book value £'000	2008 Income/ (expense) £'000	2007 Book value £'000	2007 Income/ (expense) £'000
Financial assets at fair value through the income statement				
Equity investments	**7,282**	**(2,999)**	10,830	275
Trade and other receivables	**223**	**–**	326	–
Cash and cash equivalents	**963**	**–**	813	–
Financial liabilities at fair value through the income statement				
Trade and other payables	**826**	**–**	743	–
Interest bearing loan	**1,254**	**–**	1,927	–

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 2008 the group had total borrowings of £1,254,000 and fair values were not materially different from book values.

Market risk

Market risk arises from the group's activities as investors in properties and equities. The valuation of these investments is the principal area of judgement exercised by the directors and in so doing they take the valuations of external advisers, carried out at the balance sheet date but in the knowledge that market values fluctuate from time to time.

Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. Creditworthiness of potential tenants is assessed before entering into contractual arrangements. The amount of trade receivables presented in the balance sheet is calculated after any allowances for doubtful receivables, estimated by the directors. The allowance as at 31 December 2008 was £41,000 (2007 Nil).

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 Lloyds Banking Group PLC and cash is also held by the group's property managers and brokers acting as agents, though not for long periods of time.

Liquidity risk

The group's liquidity risk, i.e. the risk that it might encounter difficulty in meeting its obligations, applies to its trade payables and medium term borrowings. The group has not encountered any difficulty in paying its trade payables in good time and has met all of the obligations of its medium term borrowing except that the company was in breach of one of its covenants as at 31 December 2008 when the revaluation of properties brought the net asset value of the subsidiary company, Rodenhurst Estates Limited, to less than £25,000,000. The directors have received notification from Lloyds Banking PLC that this breach of covenant is not considered material.

Interest rate risk

The group finances its operations through retained profits and medium term borrowings. 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.

When medium term borrowings are used variable rates of interest apply. The weighted average interest rate paid in 2008 was 5.6% (2007 6.5%). The interest terms of the medium borrowing are not available in the current banking market. If base rate averaged 3% higher than it did in 2008, then the group's net finance expenses would have been £33,000 higher. Similarly, had base rate averaged 3% lower than it did in 2008, then the group's net finance expenses would have been £33,000 lower. Interest rate risk arises from the use of interest bearing financial instruments and is the risk that future cash flows from financial instruments will fluctuate due to changes in interest rates. Interest rates are variable and the directors have considered that the cost of fixed rates it too great in relation to the risk that would be reduced by fixing. This policy is regularly reviewed.

19 Financial instruments and financial risk (continued)

Currency exchange risk

The group is not directly exposed to currency risk as it does not trade in foreign currencies. However, most of the group's equity investments are held in international companies and 17.1% (2007 15.3%) of the equity investment portfolio comprises overseas holdings. The inherent currency risk affecting those holdings is an indistinguishable factor in determining their market value and is taken into consideration as part of the overall assessment of investment risk.

Maturity of group financial liabilities

The analysis at 31 December 2008 of group financial liabilities, which are at variable rates, is as follows:

	2008	2007
	£'000	£'000
In less than one year or on demand:		
Bank borrowings	**14**	18
In more than one year but less than two years:		
Bank borrowings	**28**	37
In more than two years but less than five years:		
Bank borrowings	**165**	220
In more than five years:		
Bank borrowings	**1,047**	1,652
Total	**1,254**	1,927

Borrowing facilities

The group has no undrawn committed borrowing facilities.

20 Net assets per share

	2008	2007
	£'000	£'000
Net assets	**31,604**	41,713
Ordinary shares in issue	**5,167,240**	5,167,240
Basic net assets per share	**612p**	807p

Property investments	Valuation £'000
Commercial:	
Multi-let office building in London, SW1	2,800
Office building in central Bristol, let to Royal & Sun Alliance	2,200
Radio station and office building in Oxford, let to the BBC	2,150
Distribution centre in Kidlington, Oxfordshire, let to Parcelforce	2,175
Multi-let retail units in Staines, with offices above	2,100
Distribution centre in Southampton let to Metabo	1,825
Multi-let retail units in Cirencester, with residential above	1,450
Retail unit in Leamington Spa let to Thorntons	1,410
Retail unit in Oxford let to Jigsaw	1,370
Retail unit in Norwich let to Austin Reed	1,310
Bank premises in Petersfield let to Barclays	925
Partially vacant licensed leisure and retail property in Warrington	925
Retail unit in Oxford let to Britannia Building Society	900
Retail unit in Beckenham let to Superdrug	900
Vacant retail unit in Yeovil	850
Bank premises in Reigate let to Lloyds Banking Group	565
Retail unit in Kingston let to Kaleido	450
	24,305
Nine residential properties	2,039
	26,344

Equity investments	Valuation £'000
Top ten:	
GlaxoSmithKline	448
Vodafone	400
Tesco	365
Diageo	316
Royal Dutch Shell	278
Scottish & Southern Energy	268
HSBC Holdings	265
ANZ Banking Group	252
National Grid	238
Exxon	222
	3,052
Fifty other equity investments	4,230
	7,282

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Investment properties – at annual valuation	**26,344**	35,545	41,487	33,461	30,523
Equity investments – at market value	**7,282**	10,830	11,794	10,620	8,731
Total net assets	**31,604**	41,713	42,875	39,164	34,497
Net asset value per share in issue at end of each year	**612p**	807p	830p	758p	668p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**2,124**	2,126	2,038	1,917	1,667
Dividend income	**450**	406	489	339	285
Profit available for distribution	**1,922**	1,562	1,500	1,366	1,211
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic (loss)/earnings per ordinary share	**(179.3p)**	(8.5p)	84.8p	102.3p	56.5p
Adjusted earnings per ordinary share	**37.3p**	30.2p	29.0p	26.4p	23.4p
Dividends paid per ordinary share	**18.40p**	14.25p	13.70p	12.65p	11.70p
All-Share Index	**2141**	3287	3221	2847	2410
Highcroft year end share price	**305p**	717p	732p	615p	505p

The company's share price is quoted in the Financial Times and included in the "Real Estate" category (code HCFT). 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 – 09058 171690. Calls are charged at 75p per minute at all times.

We have audited the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2008 which comprise the principal accounting policies, the balance sheet and notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Highcroft Investments PLC for the year ended 31 December 2008.

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 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the parent company financial statements in accordance with United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Report of the Directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. This other information comprises only the Chairman's introduction, the corporate governance statement, the report of the directors, the unaudited part of the directors' remuneration report 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 parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company'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 parent company financial statements 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 parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford

11 March 2009

	Note		2008		2007
		£'000	**£'000**	£'000	£'000
Fixed assets					
Investments	5		**29,047**		40,885
Current assets					
Debtors	6	**3,683**		3,269	
Cash at bank		**133**		243	
		3,816		3,512	
Creditors – amounts falling due within one year	7	**571**		149	
Net current assets			**3,245**		3,363
Total assets less current liabilities			**32,292**		44,248
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
– Realised capital	9	**4,286**		4,306	
– Capital redemption		**95**		95	
– Investment revaluation	9	**24,241**		35,489	
– Profit and loss account	9	**2,378**		3,066	
			31,000		42,956
Shareholders' funds	11		**32,292**		44,248

These financial statements were approved by the Board of Directors on 11 March 2009.

J Hewitt
Director

J C Kingerlee
Director

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

1 Accounting policies

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

Income from fixed asset investments
Income from fixed asset investments includes dividends received in the year and interest receivable for the year.

Dividends payable
Dividend payments are dealt with when paid as a change of equity in the revenue reserve. Final dividends proposed are not recognised as a liability.

Investments
Investments are included at the following valuations:

- shares in subsidiary undertaking – at market value (net assets as shown by its financial statements are taken as a reasonable estimate of market value),
- equity 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 company 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 company's articles of association and are taken to realised capital reserve.

2 Company profit for the year after tax

The company has not presented its own profit and loss account as permitted under section 230 of the Companies Act 1985. The profit after tax for the year was £612,000 (2007 £839,000). Information regarding directors' remuneration appears on pages 12 and 13 of the consolidated financial statements.

3 Auditor's fees

	2008	2007
	£'000	£'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**9**	4
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**10**	14
Tax services	**11**	10
Other services pursuant to legislation	**1**	1
	31	29

4 Dividends

In 2008, the following dividends have been paid by the company.

	2008 £'000	2007 £'000
2007 Final: 9.25p per ordinary share (2006 9.0p)	**478**	465
2008 Interim: 7.0p per ordinary share (2007 5.0p)	**362**	258
	840	723

On 11 March 2009, the directors declared a property income distribution of 11.4p per share (2007 9.25p dividend) payable on 3 June 2009 to shareholders registered at 8 May 2009.

5 Equity investments

	Total £'000	Shares in subsidiary undertaking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Valuation at 1 January 2008	40,885	30,055	10,821	9
Additions at cost	750	–	750	–
Disposals	(1,299)	–	(1,299)	–
Deficit on revaluation	(11,289)	(8,290)	(2,999)	–
Valuation at 31 December 2008	**29,047**	**21,765**	**7,273**	**9**

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

	Total £'000	Shares in subsidiary undertaking £'000	Other investments Listed £'000	Other investments Unlisted £'000
Cost at 31 December 2008	**4,570**	**354**	**4,212**	**4**
Cost at 31 December 2007	4,698	354	4,340	4

At 31 December 2008, 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.

6 Debtors

	2008 £'000	2007 £'000
Owed by subsidiary undertaking	**3,680**	3,248
Other debtors	**3**	21
	3,683	3,269

7 Creditors – amounts falling due within one year

	2008 £'000	2007 £'000
Corporation tax	**423**	25
Other taxes and social security	**13**	13
Other creditors	**135**	111
	571	149

8 Share capital

	2008 £'000	2007 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2007 5,167,240) ordinary shares of 25p each	**1,292**	1,292

9 Reserves

	Revaluation £'000	Realised capital £'000	Retained earnings £'000
At 1 January 2008	35,489	4,306	3,066
Profit retained	–	–	612
Dividends paid	–	–	(840)
Revaluation deficit – equities	(2,999)	–	–
Revaluation deficit – Rodenhurst Estates Limited	(8,290)	–	–
Realised losses	–	(439)	–
Surplus attributable to assets sold in the year	(419)	419	–
Excess of cost over revalued amount taken to retained earnings	460	–	(460)
At 31 December 2008	**24,241**	**4,286**	**2,378**

10 Deferred taxation

Deferred taxation provided and unprovided for in the financial statements is set out below and is calculated using a tax rate of 28% (2007 28%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Unrealised capital gains	**–**	–	**4,651**	7,647

11 Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Profit for the financial year	**612**	839
Dividends	**(840)**	(723)
	(228)	116
Other recognised gains and losses:		
Deficit on revaluation of assets	**(11,289)**	(2,680)
Realised (losses)/gains	**(439)**	21
Tax on prior years' surplus now realised	**–**	(89)
Net decrease in shareholders' funds	**(11,956)**	(2,632)
Shareholders' funds at 1 January 2008	**44,248**	46,880
Shareholders' funds at 31 December 2008	**32,292**	44,248

12 Capital commitments

In December 2008, contracts were exchanged on the purchase of a property in Oxford High Street. The contract value was £266,000 and completion took place in January 2009. There were no capital commitments at 31 December 2007.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2008 or at 31 December 2007.

14 Related party transactions

Kingerlee Holdings Limited owns 25.4% (2007 25.3%) of the company's shares and D H Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2008, the company made purchases from Kingerlee Holdings Limited or its subsidiaries, being a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2007 £14,000). The amount owed at 31 December 2008 was nil (2007 Nil). All transactions were undertaken on an arm's length basis.

Under the provision of FRS8, transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

DIRECTORS AND ADVISERS

Company number
224271

Directors
John Hewitt, MA *(Non-executive Chairman)*
Christopher Clark, BA FCIS *(Non-executive)*
Richard Stansfield, BSc FRICS *(Non-executive)*
Jonathan Kingerlee *(Chief Executive)*
David Bowman, BA FCA *(Finance)*
David Kingerlee *(Executive)*

Company secretary
David Bowman, BA FCA

Independent auditor
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✤ Distribution centre in Southampton let to Metabo

- ✱ Bank premises in Reigate let to Lloyds Banking Group
- ▲ Retail unit in Leamington Spa let to Thorntons
- ● Multi-let office building in London, SW1
- ❖ Distribution centre in Kidlington, Oxfordshire, let to Parcelforce
- ■ Radio station and office building in Oxford, let to the BBC
- ◆ Multi-let retail units in Cirencester, with residential above
- ✤ Retail unit in Kingston let to Kaleido
- ✦ Partially vacant licensed leisure and retail property in Warrington
- ★ Retail unit in Oxford let to Jigsaw
- ✖ Retail unit in Beckenham let to Superdrug

Highcroft Investments PLC

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