

Highcroft Investments PLC

Preliminary results for the year ended 31 December 2014

KEY HIGHLIGHTS

- Gross property income increased by 13% to £3,079,000 (2013 £2,731,000)
- Total profit for the year up 45% to £7,057,000 (2013 £4,856,000)
- Unadjusted earnings per share up 45% to 136.5p
- Net asset value per share up 12% to 923p (2013 821p)
- Total property income distribution up 6.7% to 36.0p per share
- Medium term debt £4,000,000 (2013 £4,000,000)
- Cash and liquid equity investments £6,571,000 (2013 £8,355,000)

Dear Shareholder,

I am pleased to announce our preliminary results for the year ended 31 December 2014 and to invite you to our Annual General Meeting on 15 May 2015 which is to be held at Thomas House, Langford Locks, Kidlington, Oxon, OX5 1HR at 12 noon.

Results for the year

I am delighted to report that we have made further progress both in operating profits from our property portfolio, and through returns from the sale of property assets and realisations from our equity portfolio.

Property: Our gross property rental income rose 13% to £3,079,000 (2013 £2,731,000), with all of this increase being due to the performance of our commercial portfolio. This growth includes the effect of a full year's income from our Bicester and Cardiff properties purchased in July 2013 and November 2013, respectively. It also includes a partial year of income from our new acquisitions net of that on our disposals of our Bristol and Beckenham properties. Our first acquisition was a freehold warehouse property in Ash Vale let to SIG Trading Limited for £3,297,000 in July 2014 and the second a freehold retail warehouse property in Crawley let to Pets at Home Ltd for £2,787,000 in August 2014. We have been very pleased with the performance of the portfolio with the only void, being a single floor of our office building in Bristol prior to its disposal. There were no bad debts in the period. The sale of the Bristol and Beckenham assets yielded total gross proceeds of £3,270,000 that were 39% in excess of the most recent, half-year, valuations. These proceeds have been invested in line with our strategy. We have been successful at identifying property investments at attractive yields positioned between private investors and larger corporate property investors and intend to continue taking advantage of our strong financial position and ability to move fast to exploit such opportunities. The property portfolio showed a net valuation gain of £3,635,000 for the year.

Equities: Our income of £437,000, coupled with a realised net loss of £236,000 and an unrealised net loss of £139,000, are a result of the market conditions and the fact that the Vodafone de-merger, for which we took the income option, enhanced our income by £220,000 with a corresponding reduction of the capital performance. We released £255,000 in net cash from this portfolio during the year and have released a further £623,000 since the year end.

Administrative expenses: Our ongoing administrative expenses increased by 25% in 2014, due primarily to the introduction of a performance related bonus scheme for the executive directors. Our finance costs increased by £116,000 due to the effect of a full year's interest on our bank loans.

Financial highlights: Our total profit for the year showed a 45% improvement on 2013, driven particularly by the capital performance of our property portfolio. Our profit on revenue activities increased by 29% to £3,758,000 (2013 £2,921,000). Excluding the realised gains on investment property, the underlying profit on revenue activities rose by 13%. Our year end net asset value per share increased to 923p (2013 821p). Our year end cash position was £2,039,000 (2013 £3,128,000), whilst readily realisable equity investments totalled £4,532,000 (2013 £5,227,000). Our year end bank loans totalled £4,000,000 (2013 £4,000,000)

Dividend

We are recommending a final dividend of 22.75p per share (2013 21.25p) to be paid on 5 June 2015 to shareholders registered on 8 May 2015, making a total of 36.0p for the year (2013 33.75p). This increase of 6.7% for the year continues our recent record of dividend increases well in excess of inflation.

Board

As has already been announced, Richard Stansfield is retiring from the Board as Senior Non- Executive Director as from the date of the AGM. Richard has been a Director for 12 years , a period which has seen significant progress and benefit to shareholders. We are grateful to him for bringing his expertise and common sense to our deliberations. The Board is well advanced on the process of choosing a successor and an announcement will be made as soon as possible.

Outlook

We are very pleased with the results for the year and remain optimistic that we start 2015 from a position of strength upon which we hope to build through further attractive acquisitions. We will continue to reduce the equity portfolio in line with our strategy. We have set ourselves some challenging objectives for 2015 and we expect that our actions will continue to improve shareholder value via increased dividends and asset values.

J HEWITT
Chairman

25 March 2015

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Consolidated statement of comprehensive income
for the year ended 31 December 2014

	Note	2014			2013		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		3,079	-	3,079	2,731	-	2,731
Property operating expenses		(158)	-	(158)	(151)	-	(151)
Net rental income		2,921	-	2,921	2,580	-	2,580
Realised gains on investment property		941	-	941	415	-	415
Realised losses on investment property		(4)	-	(4)	-	-	-
Net gains on investment property		937	-	937	415	-	415
Valuation gains on investment property		-	3,785	3,785	-	1,833	1,833
Valuation losses on investment property		-	(150)	(150)	-	(590)	(590)
Net valuation gains on investment property		-	3,635	3,635	-	1,243	1,243
Dividend revenue		437	-	437	234	-	234
Gains on equity investments		-	231	231	-	832	832
Losses on equity investments		-	(606)	(606)	-	(63)	(63)
Net investment income/(expense)		437	(375)	62	234	769	1,003
Administration expenses		(432)	-	(432)	(345)	-	(345)
Net operating profit before net finance income		3,863	3,260	7,123	2,884	2,012	4,896
Finance income		8	-	8	7	-	7
Finance expense		(178)	-	(178)	(61)	-	(61)
Net finance expenses		(170)	-	(170)	(54)	-	(54)
Profit before tax		3,693	3,260	6,953	2,830	2,012	4,842
Income tax credit/(expense)	1	65	39	104	91	(77)	14
Total profit and comprehensive income for the year attributable to the owners of the parent		3,758	3,299	7,057	2,921	1,935	4,856
Basic and diluted earnings per share		72.7p	63.8p	136.5p	56.5p	37.5p	94.0p

Consolidated statement of financial position
at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Investment property	4	46,523	39,415
Equity investments	5	4,532	5,227
Total non-current assets		<u>51,055</u>	<u>44,642</u>
Current assets			
Trade and other receivables		415	422
Cash and cash equivalents		2,039	3,128
Total current assets		<u>2,454</u>	<u>3,550</u>
Total assets		<u>53,509</u>	<u>48,192</u>
Liabilities			
Current liabilities			
Trade and other payables		1,312	1,160
Total current liabilities		<u>1,312</u>	<u>1,160</u>
Non-current liabilities			
Interest bearing loan	6	4,000	4,000
Deferred tax liabilities		495	604
Total non-current liabilities		<u>4,495</u>	<u>4,604</u>
Total liabilities		<u>5,807</u>	<u>5,764</u>
Net assets		<u>47,702</u>	<u>42,428</u>
Equity			
Issued share capital		1,292	1,292
Revaluation reserve - property		11,332	7,353
- other		1,335	1,972
Capital redemption reserve		95	95
Realised capital reserve		24,785	24,220
Retained earnings		8,863	7,496
Total equity attributable to the owners of the parent		<u>47,702</u>	<u>42,428</u>

Consolidated statement of changes in equity

2014	Issued share capital	Revaluation reserves Property	Other	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2014	1,292	7,353	1,972	95	24,220	7,496	42,428
Dividends	-	-	-	-	-	(1,783)	(1,783)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	3,635	(65)	-	-	(3,570)	-
Tax on revaluation gains/(losses)	-	-	(7)	-	-	7	-
Realised gains	-	-	-	-	756	(756)	-
Loss/(surplus) attributable to assets sold in the year	-	756	(565)	-	(191)	-	-
Excess of cost over revalued amount taken to retained earnings	-	(412)	-	-	-	412	-
Transactions with owners	-	3,979	(637)	-	565	(5,690)	(1,783)
Profit and total comprehensive income for the year	-	-	-	-	-	7,057	7,057
At 31 December 2014	1,292	11,332	1,335	95	24,785	8,863	47,702
2013							
	Issued share capital	Revaluation reserves Property	Other	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2013	1,292	7,050	1,746	95	22,366	6,692	39,241
Dividends	-	-	-	-	-	(1,669)	(1,669)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation losses	-	1,243	610	-	-	(1,853)	-
Tax on revaluation gains/(losses)	-	-	(43)	-	-	43	-
Realised gains	-	-	-	-	527	(527)	-
Surplus attributable to assets sold in the year	-	(986)	(341)	-	1,327	-	-
Excess of cost over revalued amount taken to retained earnings	-	46	-	-	-	(46)	-
Transactions with owners	-	303	226	-	1,854	(4,052)	(1,669)
Profit and total comprehensive income for the year	-	-	-	-	-	4,856	4,856
At 31 December 2013	1,292	7,353	1,972	95	24,220	7,496	42,428

Consolidated statement of cash flows

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Operating activities		
Profit for the year	7,057	4,856
Adjustments for:		
Net valuation gains on investment property	(3,635)	(1,243)
Net gain on disposal of investment property	(937)	(415)
Net loss/(gain) on investments	375	(769)
Finance income	(8)	(7)
Finance expense	178	61
Income tax credit	(104)	(14)
Operating cash flow before changes in working capital and provisions	<u>2,926</u>	<u>2,469</u>
Decrease/(increase) in trade and other receivables	7	(168)
Increase in trade and other payables	153	126
Cash generated from operations	<u>3,086</u>	<u>2,427</u>
Finance income	7	7
Finance expense	(178)	(27)
Income taxes (paid)/received	(5)	7
Net cash flows from operating activities	<u>2,910</u>	<u>2,414</u>
Investing activities		
Purchase of non-current assets – investment property	(6,084)	(8,488)
– equity investments	(649)	(125)
Sale of non-current assets – investment property	3,548	2,340
– equity investments	969	1,382
Net cash flows from investing activities	<u>(2,216)</u>	<u>(4,891)</u>
Financing activities		
Dividends paid	(1,783)	(1,669)
New bank borrowings	-	4,000
Net cash flows from financing activities	<u>(1,783)</u>	<u>2,331</u>
Net decrease in cash and cash equivalents	(1,089)	(146)
Cash and cash equivalents at 1 January 2014	3,128	3,274
Cash and cash equivalents at 31 December 2014	<u>2,039</u>	<u>3,128</u>

Notes

for the year ended 31 December 2014

1 Income tax credit

	2014 £'000	2013 £'000
Current tax:		
On revenue profits	(65)	(82)
On capital profits	(51)	34
Prior year underprovision/(overprovision) on capital profits	5	(9)
	<u>(111)</u>	<u>(57)</u>
Deferred tax	7	43
Income tax credit	<u>(104)</u>	<u>(14)</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.5% (2013 23.25%). The differences are explained as follows:

	2014 £'000	2013 £'000
Profit before tax	<u>6,953</u>	<u>4,842</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 23.25%)	1,495	1,126
Effect of:		
Tax exempt revenues	(64)	(199)
Profit not taxable as a result of REIT status	(1,611)	(985)
Chargeable gains less than accounting profit	116	48
Losses carried forward	(36)	12
Effect of change in tax rate on deferred tax liability	(9)	(7)
Adjustments to tax charge in respect of prior periods	5	(9)
Income tax credit	<u>(104)</u>	<u>(14)</u>

2 Dividends

In 2014 the following dividends have been paid by the company:

	2014 £'000	2013 £'000
2013 Final: 21.25p per ordinary share (2012 19.8p)	1,098	1,023
2014 Interim: 13.25p per ordinary share (2013 12.5p)	685	646
	<u>1,783</u>	<u>1,669</u>

On 25 March 2015 the directors declared a property income distribution of £1,176,000, 22.75p per share (2013 £1,098,000, 19.8p per share) payable on 5 June 2015 to shareholders registered at 8 May 2015.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £7,057,000 (2013 £4,856,000) and on 5,167,240 shares (2013 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2014 and throughout the period since 1 January 2014. There are no dilutive instruments.

In order to draw attention to the impact of valuation gains and losses which are included in the statement of comprehensive income but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £3,758,000 (2013 £2,921,000) has been calculated.

	2014 £'000	2013 £'000
Earnings:		
Basic profit for the year	7,057	4,856
Adjustments for:		
Net valuation gains on investment property	(3,635)	(1,243)
Losses/(gains) on investments	375	(769)
Income tax on (losses)/gains	(39)	77
Adjusted earnings	<u>3,758</u>	<u>2,921</u>
Per share amount:		
Earnings per share (unadjusted)	136.5p	94.0p
Adjustments for:		
Net valuation gains on investment property	(70.3p)	(24.1p)
Losses/(gains) on investments	7.2p	(14.9p)
Income tax on (losses)/gains	(0.7p)	1.5p
Adjusted earnings per share	<u>72.7p</u>	<u>56.5p</u>

4 Investment property

	2014 £'000	2013 £'000
Valuation at 1 January	39,415	31,609
Additions	6,084	8,488
Disposals	(2,611)	(1,925)
Revaluation gains/(losses)	3,635	1,243
Valuation at 31 December	<u>46,523</u>	<u>39,415</u>

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2014, 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 uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in net asset value.

5 Equity investments

	2014 £'000	2013 £'000
Valuation at 1 January	5,227	5,713
Additions	649	127
Disposals	(1,205)	(1,236)
(Deficit)/surplus on revaluation in excess of cost	(65)	610
Revaluation decrease below cost	(76)	(4)
Revaluation increase still less than cost	2	17
Valuation at 31 December	<u>4,532</u>	<u>5,227</u>

6 Interest bearing loan

	2014	2013
	£'000	£'000
Medium term bank loans	4,000	4,000
The medium term bank loans comprise amounts falling due as follows:		
Between one and two years	-	-
Between two and five years	-	-
Over five years	4,000	4,000
	<u>4,000</u>	<u>4,000</u>

7 Basis of preparation

The preliminary announcement has been prepared in accordance with applicable accounting standards as stated in the financial statements for the year ended 31 December 2013. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 15 May 2015.

9 Publication of non-statutory accounts

The above does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2014 on which the auditor has expressed an unmodified opinion and does not include any statement under section 498 of the Companies Act 2006. The accounts will be posted to shareholders on or before 15 April 2015 and subsequently filed at Companies House.