



KEY HIGHLIGHTS

- 22.0% increase in gross property income to £4,765,000 (2016 £3,906,000)
- 16.8% increase in investment property valuation to £77,113,000 (2016 £65,997,000)
- Property acquisitions of £9,480,000 (net of costs) and disposal proceeds of £2,292,000
- 8.4% increase in net asset value per share to 1161p (2016 1071p)
- 57.5% increase in earnings per share to 132.3p (2016 84.0p)
- Medium term debt £19,400,000 (2016 £14,900,000); net gearing 29% (2016 21%)
- Cash and liquid equity investments £4,035,000 (2016 £5,838,000)
- 15.4% increase in final dividend to 30.0p per share (2016 26.0p per share)
- 12.8% increase in total dividend to 46.25p per share (2016 41.0p per share)

Dear Shareholder,

I am pleased to announce our preliminary results for the year ended 31 December 2017 and to invite you to our Annual General Meeting on 17 May 2018 which will be held at Thomas House, Langford Locks, Kidlington, Oxfordshire, OX5 1HR at 12 noon.

Introduction

I am very pleased to be writing my first chairman's statement and reporting such a strong set of results. Before I do so however I must thank John Hewitt for his contribution to Highcroft through the last 18 years of which 11 were as non-executive chairman.

There is no doubt that 2017 has been a year of political events both inside and outside the UK and with that came a year of market uncertainty. Even with this challenging backdrop I am pleased to report that the company has reported excellent property income growth of 22%, an earnings per share increase of 57.5% to 132.3p and a 13% increase in total dividend to 46.25p per share.

Property portfolio

Under the guidance and leadership of Simon Gill we purchased two warehouses during the year which were financed by a combination of existing cashflow, recycled cash from a property sale and a new debt facility which in turn reduced the average cost of debt to 3.64% and left gearing at a modest 29%. At the year end the portfolio stood at 74% warehouses and retail warehouses with a small amount of residual residential and the remainder split between well let retail and offices. Property rental growth of 22% for the year is the strongest performance over the last 5 years and with contracted rent at the year end being 21% up on the previous year end this shows the increase in rental income continuing into 2018. We have stringent criteria for new tenant acceptance and at the year end all properties were fully let to a strong tenant base. Through a combination of stable income yields and active asset management I am pleased to report an 8.4% increase in net asset value and 11.9% return on equity for the year (2016 8.0%).

People

I have only been in situ as chairman for a short period however I would like to thank and congratulate the team for their hard work throughout the year. We have a small but dedicated and experienced team at Highcroft and this sets us in good stead for the year ahead.

Dividend

The company's interim dividend was increased by 8.3% and as a result of strong revenue growth, efficient use of debt and administration costs falling as a percentage of revenue we have increased the final dividend to 30.0p per share leading to a total dividend of 46.25p per share – an increase of 12.8%. Our stated strategy is to increase dividends in excess of inflation every year and I am pleased to say we have delivered an inflation busting 45.4% increase over the last 5 years.

Outlook

Highcroft is well positioned with a high quality income producing portfolio. We go into 2018 with positive momentum gained in 2017 and well positioned to continue our portfolio growth. We are however in a very competitive landscape with continuing political uncertainty so we remain cautious and diligent in our approach in ensuring we select the right properties to deliver long term shareholder value.

This announcement contains inside information for the purpose of Article 7 of Regulation (EU) No 596/2014.

Charles Butler
Chairman

23 March 2018

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Consolidated statement of comprehensive income
for the year ended 31 December 2017

	Note	2017			2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		4,765	-	4,765	3,906	-	3,906
Property operating expenses		(259)	-	(259)	(198)	-	(198)
Net rental income		4,506	-	4,506	3,708	-	3,708
Net gains on disposal of investment property	1	-	-	1	134	-	134
Valuation gains on investment property		-	3,365	3,365	-	2,509	2,509
Valuation losses on investment property		-	(77)	(77)	-	(1,536)	(1,536)
Net valuation gains on investment property		-	3,288	3,288	-	973	973
Dividend revenue		92	-	92	144	-	144
Gains on equity investments		-	230	230	-	546	546
Losses on equity investments		-	(91)	(91)	-	(58)	(58)
Net investment income		92	139	231	144	488	632
Administration expenses		(663)	-	(663)	(651)	-	(651)
Net operating profit before net finance income		3,936	3,427	7,363	3,335	1,461	4,796
Finance income	2	-	-	2	11	-	11
Finance expense		(651)	-	(651)	(506)	-	(506)
Net finance expense		(649)	-	(649)	(495)	-	(495)
Profit before tax		3,287	3,427	6,714	2,840	1,461	4,301
Income tax credit	1	61	60	121	72	(30)	42
Total profit and comprehensive income for the year attributable to the owners of the parent		3,348	3,487	6,835	2,912	1,431	4,343
Basic and diluted earnings per share				132.3p			84.0p

Consolidated statement of financial position
at 31 December 2017

	Note	2017 £'000	Restated 2016 £'000
Assets			
Non-current assets			
Investment property	4	76,315	63,739
Equity investments	5	2,131	2,469
Total non-current assets		<u>68,466</u>	<u>68,466</u>
Current assets			
Investment property		798	2,258
Trade and other receivables		537	631
Cash and cash equivalents		1,904	3,369
Total current assets		<u>3,239</u>	<u>4,000</u>
Total assets		<u>81,685</u>	<u>72,466</u>
Liabilities			
Current liabilities			
Trade and other payables		2,054	1,866
Total current liabilities		<u>1,866</u>	<u>1,866</u>
Non-current liabilities			
Interest bearing loan	6	19,400	14,900
Deferred tax liabilities		254	375
Total non-current liabilities		<u>19,654</u>	<u>15,275</u>
Total liabilities		<u>21,708</u>	<u>17,141</u>
Net assets		<u>59,977</u>	<u>55,325</u>
Equity			
Issued share capital		1,292	1,292
Revaluation reserve - property		18,015	14,276
- other		538	659
Capital redemption reserve		95	95
Realised capital reserve		26,611	27,020
Retained earnings		13,426	11,983
Total equity attributable to the owners of the parent		<u>59,977</u>	<u>55,325</u>

Consolidated statement of changes in equity

2017	Issued share capital £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	1,292	14,276	659	95	27,020	11,983	55,325
Transactions with owners:							
Dividends	-	-	-	-	-	(2,183)	(2,183)
Reserve transfers:							
Non-distributable items recognised in statement of comprehensive income:							
Revaluation gains	-	3,288	124	-	-	(3,412)	-
Tax on revaluation gains/(losses)	-	-	64	-	-	(64)	-
Realised gains	-	-	-	-	16	(16)	-
(Surplus)/loss attributable to assets sold in the year	-	734	(309)	-	(425)	-	-
Excess of cost over revalued amount taken to retained earnings	-	(283)	-	-	-	283	-
	-	3,739	(121)	-	(409)	(3,209)	-
Profit and total comprehensive income for the year	-	-	-	-	-	6,835	6,835
At 31 December 2017	1,292	18,015	538	95	26,611	13,426	59,977
2016							
	Issued share capital £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	1,292	14,764	667	95	25,586	10,619	53,023
Transactions with owners:							
Dividends	-	-	-	-	-	(2,041)	(2,041)
Reserve transfers:							
Non-distributable items recognised in statement of comprehensive income:							
Revaluation losses	-	973	467	-	-	(1,440)	-
Tax on revaluation gains/(losses)	-	-	(26)	-	-	26	-
Realised gains	-	-	-	-	149	(149)	-
Surplus attributable to assets sold in the year	-	(836)	(449)	-	1,285	-	-
Excess of cost over revalued amount taken to retained earnings	-	(625)	-	-	-	625	-
	-	(488)	(8)	-	1,434	(2,979)	(2,041)
Profit and total comprehensive income for the year	-	-	-	-	-	4,343	4,343
At 31 December 2016	1,292	14,276	659	95	27,020	11,983	55,325

Consolidated statement of cash flows

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Operating activities		
Profit before tax on ordinary activities	6,714	4,301
Adjustments for:		
Net valuation gains on investment property	(3,288)	(973)
Net gain on disposal of investment property	(1)	(134)
Net loss on investments	(139)	(488)
Finance income	(2)	(11)
Finance expense	651	506
Operating cash flow before changes in working capital and provisions	3,935	3,201
Decrease/(increase) in trade and other receivables	94	10
Increase in trade and other payables	196	193
Cash generated from operations	4,225	3,404
Finance income	2	11
Finance expense	(651)	(506)
Income taxes paid	(8)	-
Net cash flows from operating activities	3,568	2,909
Investing activities		
Purchase of non-current assets – investment property	(10,086)	(9,896)
– equity investments	-	(3)
Sale of non-current assets – investment property	2,259	2,972
– equity investments	477	1,176
Net cash flows from investing activities	(7,350)	(5,751)
Financing activities		
Dividends paid	(2,183)	(2,041)
New bank borrowings	4,500	3,400
Net cash flows from financing activities	1,359	1,359
Net decrease in cash and cash equivalents	(1,483)	(1,483)
Cash and cash equivalents at 1 January 2017	3,369	4,852
Cash and cash equivalents at 31 December 2017	1,904	3,369

Notes

for the year ended 31 December 2017

1 Income tax credit

	2017 £'000	2016 £'000
Current tax:		
On revenue profits	(61)	12
On capital profits	3	(80)
	<u>(58)</u>	<u>(68)</u>
Deferred tax	(63)	26
Income tax credit	<u>(121)</u>	<u>(42)</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2016 20%).
The differences are explained as follows:

	2017 £'000	2016 £'000
Profit before tax	<u>6,714</u>	<u>4,301</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015 20%)	1,276	860
Effect of:		
Tax exempt revenues	(40)	(123)
Profit not taxable as a result of REIT status	(1,481)	(963)
Chargeable gains less than accounting profit	55	59
Use of management expenses	82	125
Effect of change in tax rate on deferred tax liability	13	-
Income tax credit	<u>(121)</u>	<u>(42)</u>

2 Dividends

In 2017 the following dividends have been paid by the company:

	2017 £'000	2016 £'000
2016 Final: 26.0p per ordinary share (2015 24.50p)	1,343	1,266
2017 Interim: 16.25p per ordinary share (2016 15.0p)	840	775
	<u>2,183</u>	<u>2,041</u>

The directors recommend a property income distribution of £1,550,000, 30.0p per share (2016 £1,343,000, 26.0p per share) payable on 1 June 2018 to shareholders registered at 4 May 2018.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £6,835,000 (2016 £4,343,000) and on 5,167,240 shares (2016 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2017 and throughout the period since 1 January 2016. 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 £3,348,000 (2015 £2,912,000) has been calculated.

	2017 £'000	2016 £'000
Earnings:		
Basic profit for the year	6,835	4,343
Adjustments for:		
Net valuation gains on investment property	(3,288)	(974)
Gains/(losses) on investments	(139)	(488)
Income tax on (profits)/losses	(60)	30
Adjusted earnings	<u>3,348</u>	<u>2,912</u>
Per share amount:		
Earnings per share (unadjusted)	132.3p	84.0p
Adjustments for:		
Net valuation gains on investment property	(63.6p)	(18.9p)
Gains/(losses) on investments	(2.7p)	(9.4p)
Income tax on losses	(1.2p)	0.6p
Adjusted earnings per share	<u>64.8p</u>	<u>56.3p</u>

4 Investment property

	2017 £'000	2016 £'000
Valuation at 1 January	65,997	57,964
Additions	10,086	9,896
Disposals	(2,258)	(2,836)
Revaluation gains/(losses)	3,288	973
Valuation at 31 December	<u>77,113</u>	<u>65,997</u>
Less property categorised as current asset	<u>(798)</u>	<u>(2,258)</u>
Property categorised as fixed asset	<u>76,315</u>	<u>63,739</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 2017, 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

	2017 £'000	2016 £'000
Valuation at 1 January	2,469	3,155
Additions	-	3
Disposals	(459)	(1,159)
Surplus/(deficit) on revaluation in excess of cost	124	467
Revaluation decrease below cost	(3)	(11)
Revaluation increase still less than cost	-	14
Valuation at 31 December	<u>2,131</u>	<u>2,469</u>

6 Interest bearing loans

	2017	2016
	£'000	£'000
Medium term bank loans	19,400	14,900
The medium term bank loans comprise amounts falling due as follows:		
Between one and two years	-	-
Between two and five years	4,000	4,000
Over five years	15,400	10,900
	<u>19,400</u>	<u>14,900</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 2016. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 17 May 2018.

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 2017 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 23 April 2017 and subsequently filed at Companies House.