



KEY HIGHLIGHTS

- 5.8% increase in gross property income to £5,043,000 (2017 £4,765,000)
- 0.8% increase in investment property valuation to £77,700,000 (2017 £77,113,000)
- Property acquisitions of £5,226,000 (net of costs) and disposal proceeds of £6,145,000
- 4.0% increase in net asset value per share to 1207p (2017 1161p)
- 28.0% decrease in earnings per share to 95.3p (2017 132.3p)
- 34.7% increase in Adjusted earnings per share to 87.3p (2017 64.8p)
- Medium-term debt unchanged at £19,400,000; net gearing 23% (2017 29%)
- Cash and liquid equity investments £5,881,000 (2017 £4,035,000)
- 12.5% increase in final dividend to 33.75p per share (2017 30.0p per share)
- 13.5% increase in total dividend to 52.50p per share (2017 46.25p per share)

Dear Shareholder,

Introduction

I am very pleased to be delivering another strong set of results. There is no doubt that 2018 has been a year of prolonged political and economic uncertainty, and even against the backdrop of protracted Brexit negotiations the company is reporting continued net property income growth of 7.8%, total shareholder return of 5.2% and a 13.5% increase in the total dividend to 52.50 pence per share.

Property portfolio

We purchased one freehold leisure asset during the year. This was financed by a combination of existing cashflow and recycled cash from two property sales and from equity sales. We sold one additional asset in December 2018 at a premium of 34.6% to the June valuation. This sale at such a significant premium to book value is a reflection of our ability to read the market and move swiftly to capitalise on opportunistic situations when they arise. At the year-end our portfolio value comprised 72% industrial/retail warehouses, and the remainder split between well-let retail, leisure and offices. We are also pleased to report that we sold our last residential asset during the year.

Gross property rental growth of 5.8% for the year remains robust and follows a particularly strong 2017. Contracted rent at the year-end was 1.2% up on the previous year-end; however, this was masked by the sale of our Southampton asset close to the year-end with an annual rent of £184,000. Adjusting back for this would have given an increase of 4.9%.

At the year-end we held a cash balance of £5.2m, along with a liquid equity portfolio of £679,000 (sold post year-end for £724,000) and undrawn banking facilities of £10.6m. This gives the company in excess of £15m capacity to take advantage of opportunities as they arise in 2019. The company takes a prudent view of bank leverage and, even if fully drawn, this facility would have accounted for less than 35% of the property portfolio value.

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 a 4.0% increase in net asset value and an 8.1% return on equity for the year.

People

I would like to thank the team for their continued hard work throughout the year during challenging market conditions. We have a small but dedicated and experienced team at Highcroft and this sets us in good stead for the year ahead. The board supports the principles of good corporate governance, so, in order to ensure that we comply insofar as is practicable with the principles of the 2018 UK Corporate Governance Code, we are proposing to introduce a new incentive plan for the executive directors in order to further align their interests with those of the shareholders.

Dividend

The company's interim dividend was increased by 15.4% and, because of good revenue growth, efficient use of debt and containing our administration costs, we have increased the final dividend to 33.75 pence per share giving a total dividend of 52.50 pence per share, an increase of 13.5%. Our stated strategy is to increase dividends in excess of inflation each year and I am pleased to say we have delivered this every year since we converted to a REIT.

Outlook

Highcroft is well-positioned with a high quality income-producing portfolio. However, we expect 2019 to be another challenging year. We operate in a very competitive landscape with continuing political and economic uncertainty, particularly around Brexit and its potential effects on market sentiment and tenants' ability to continue to pay our rents. We therefore remain cautious and diligent in our approach to 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

22 March 2019

Enquiries:

Highcroft Investments PLC
Charles Butler / Roberta Miles
01865 840023

Panmure Gordon (UK) Limited
Fabien Holler
0207 886 2500

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Note	2018			2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		5,043	-	5,043	4,765	-	4,765
Property operating expenses		(184)	-	(184)	(259)	-	(259)
Net rental income		4,859	-	4,859	4,506	-	4,506
Net gains on disposal of investment property		967	-	967	1	-	1
Valuation gains on investment property		-	2,600	2,600	-	3,365	3,365
Valuation losses on investment property		-	(2,116)	(2,116)	-	(77)	(77)
Net valuation gains on investment property		-	484	484	-	3,288	3,288
Dividend revenue		54	-	54	92	-	92
Gains on equity investments		-	48	48	-	230	230
Losses on equity investments		-	(166)	(166)	-	(91)	(91)
Net investment income		54	(118)	(64)	92	139	231
Administration expenses		(736)	-	(736)	(663)	-	(663)
Net operating profit before net finance income		5,144	366	5,510	3,936	3,427	7,363
Finance income		6	-	6	2	-	2
Finance expense		(705)	-	(705)	(651)	-	(651)
Net finance expense		(699)	-	(699)	(649)	-	(649)
Profit before tax		4,445	366	4,811	3,287	3,427	6,714
Income tax credit	1	67	48	115	61	60	121
Total profit and comprehensive income for the year attributable to the owners of the parent		4,512	414	4,926	3,348	3,487	6,835
Basic and diluted earnings per share				95.3p			132.3p

Consolidated statement of financial position
at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Investment property	4	77,700	76,315
Equity investments	5	679	2,131
Total non-current assets		<u>78,379</u>	<u>78,446</u>
Current assets			
Investment property		-	798
Trade and other receivables		471	537
Cash and cash equivalents		5,202	1,904
Total current assets		<u>5,673</u>	<u>3,239</u>
Total assets		<u>84,052</u>	<u>81,685</u>
Liabilities			
Current liabilities			
Trade and other payables		2,235	2,054
Total current liabilities		<u>2,235</u>	<u>2,054</u>
Non-current liabilities			
Interest bearing loan	6	19,400	19,400
Deferred tax liabilities		33	254
Total non-current liabilities		<u>19,433</u>	<u>19,654</u>
Total liabilities		<u>21,668</u>	<u>21,708</u>
Net assets		<u>62,384</u>	<u>59,977</u>
Equity			
Issued share capital		1,292	1,292
Revaluation reserve - property		18,770	18,015
- other		574	538
Capital redemption reserve		95	95
Realised capital reserve		28,378	26,611
Retained earnings		13,275	13,426
Total equity attributable to the owners of the parent		<u>62,384</u>	<u>59,977</u>

Consolidated statement of changes in equity

2018	Issued share capital	Revaluation reserves	Property	Other	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	1,292	18,015	538		95	26,611	13,426	59,977
Transactions with owners:								
Dividends	-	-	-		-	-	(2,519)	(2,519)
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation gains/(losses)	-	484	(121)		-	-	(363)	-
Tax on revaluation gains	-	-	48		-	-	(48)	-
Realised gains/(losses)	-	-	-		-	969	(969)	-
Movement in deferred tax on realisation of equities	-	-	1,161		-	(1,161)	-	-
Surplus attributable to assets sold in the year	-	(907)	(1,052)		-	1,959	-	-
Excess of cost over revalued amount taken to retained earnings	-	1,178	-		-	-	(1,178)	-
	-	755	36		-	1,767	(2,558)	-
Total comprehensive income for the year	-	-	-		-	-	4,926	4,926
At 31 December 2018	1,292	18,770	574		95	28,378	13,275	62,384
2017								
	Issued share capital	Revaluation reserves	Property	Other	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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 income statement:								
Revaluation gains	-	3,288	124		-	-	(3,412)	-
Tax on revaluation gains	-	-	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)	-
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

Consolidated statement of cash flows

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Operating activities		
Profit before tax on ordinary activities	4,811	6,714
Adjustments for:		
Net valuation gains on investment property	(484)	(3,288)
Net gain on disposal of investment property	(967)	(1)
Net gain/(loss) on investments	118	(139)
Finance income	(6)	(2)
Finance expense	705	651
Operating cash flow before changes in working capital and provisions	4,177	3,935
Decrease in trade and other receivables	66	94
Increase in trade and other payables	89	196
Cash generated from operations	4,332	4,225
Finance income	6	2
Finance expense	(705)	(651)
Income taxes paid	(13)	(8)
Net cash flows from operating activities	3,620	3,568
Investing activities		
Purchase of non-current assets – investment property	(5,226)	(10,086)
– equity investments	-	-
Sale of non-current assets – investment property	6,090	2,259
– equity investments	1,333	477
Net cash flows from investing activities	2,197	(7,350)
Financing activities		
Dividends paid	(2,519)	(2,183)
New bank borrowings	-	4,500
Net cash flows from financing activities	(2,519)	2,317
Net increase/(decrease) in cash and cash equivalents	3,298	(1,465)
Cash and cash equivalents at 1 January	1,904	3,369
Cash and cash equivalents at 31 December	5,202	1,904

Notes

for the year ended 31 December 2018

1 Income tax credit

	2018 £'000	2017 £'000
Current tax:		
On revenue profits	67	61
On capital profits	-	(3)
	<hr/>	<hr/>
	67	58
Deferred tax	48	63
Income tax credit	<hr/>	<hr/>
	115	121

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 19%).
The differences are explained as follows:

	2018 £'000	2017 £'000
Profit before tax	<hr/>	<hr/>
	4,811	6,714
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017 19%)	914	1,276
Effect of:		
Tax exempt revenues	13	(40)
Profit not taxable as a result of REIT status	(1,199)	(1,481)
Chargeable gains more than accounting profit	172	55
Use of management expenses	20	82
Change in deferred tax liability	(48)	(13)
Adjustment in respect of previous years	13	-
Income tax credit	<hr/>	<hr/>
	(115)	(121)

2 Dividends

In 2018 the following dividends have been paid by the company:

	2018 £'000	2017 £'000
2017 Final: 30.0p per ordinary share (2016 26.0p)	1,550	1,343
2018 Interim: 18.75p per ordinary share (2017 16.25p)	969	840
	<hr/>	<hr/>
	2,519	2,183

The directors recommend a property income distribution of £1,744,000, 33.75p per share (2017 £1,550,000, 30.0p per share) payable on 31 May 2019 to shareholders registered at 3 May 2019.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £4,926,000 (2017 £6,835,000) and on 5,167,240 shares (2017 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2018 and throughout the period since 1 January 2017. There are no dilutive instruments.

In order to draw attention to the profit which is not due 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 £4,512,000 (2017 £3,348,000) has been calculated.

	2018 £'000	2017 £'000
Earnings:		
Basic profit for the year	4,926	6,835
Adjustments for:		
Net valuation gains on investment property	(484)	(3,288)
Losses/(gains) on investments	118	(139)
Income tax on (profits)/losses	(48)	(60)
Adjusted earnings	<u>4,512</u>	<u>3,348</u>
Per share amount:		
Earnings per share (unadjusted)	95.3p	132.3p
Adjustments for:		
Net valuation gains on investment property	(9.4p)	(63.6p)
Losses/(gains) on investments	2.3p	(2.7p)
Income tax on profit	(0.9p)	(1.2p)
Adjusted earnings per share	<u>87.3p</u>	<u>64.8p</u>

4 Investment property

	2018 £'000	2017 £'000
Total valuation at 1 January	77,113	65,997
Additions	5,226	10,086
Disposals	(5,123)	(2,258)
Revaluation gains	484	3,288
Valuation at 31 December	<u>77,700</u>	<u>77,113</u>
Less property categorised as current asset	-	(798)
Property categorised as fixed asset	<u>77,700</u>	<u>76,315</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 2018, 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 at fair value categorised with level 2 inputs.

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. Significant increases or decreases in estimated rental value and rent growth per annum in isolation would result in a significantly lower or higher fair value.

5 Equity investments

	2018 £'000	2017 £'000
Valuation at 1 January	2,131	2,469
Disposals	(1,331)	(459)
(Loss)/surplus on revaluation in excess of cost	(121)	124
Revaluation decrease below cost	-	(3)
Valuation at 31 December	<u>679</u>	<u>2,131</u>

6 Interest bearing loans

	2018	2017
	£'000	£'000
Medium-term bank loans	19,400	19,400
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	4,000	-
Between two and five years	7,500	4,000
Over five years	7,900	15,400
	<u>19,400</u>	<u>19,400</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 2017. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 16 May 2019.

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 2018 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 2019 and subsequently filed at Companies House.