

**Highcroft Investments PLC**

**Preliminary results for the year ended 31 December 2013**

**KEY HIGHLIGHTS**

- Gross property income increased by 16% to £2,731,000
- Total profit for the year up 35% to £4,856,000
- Unadjusted earnings per share up 35% to 94.0p
- Net asset value per share up 8% to 821p (2012 759p)
- Total property income distribution up 6.1% to 33.75p per share
- Medium term debt £4,000,000 (2012 nil)
- Cash and liquid equity investments £8,355,000 (2012 £8,987,000)

Dear Shareholder,

I am pleased to announce our preliminary results for the year ended 31 December 2013 and to invite you to our Annual General Meeting on 16 May 2014.

**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 16% to £2,731,000 (2012 £2,351,000), 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 the warehouse unit in Bedford purchased in August 2012 and from our warehouse unit in Milton Keynes purchased in November 2012. In addition, two new units were purchased in the year. The first was a retail warehouse property in Bicester let to Wickes Building Supplies Limited and the second a modern office investment in Cardiff let to Arriva Trains Limited. We have been very pleased with the performance of the portfolio with the only void, arising at the year end, being a single floor of our office building in Bristol. There were no bad debts in the period. The sale of two of our smaller assets at auction in December 2013 yielded total gross proceeds of £2,370,000 that were 31% in excess of the June 2013 valuations. The intention is to reinvest these funds into a mixture of both secure income assets and assets which offer the opportunity for further enhancement thus providing both capital and income growth. We have been successful at identifying property investments at attractive yields that sit 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 £1,243,000 for the year. Since the year end we have sold one of our residential properties at its year end valuation.

**Equities:** Our income of £234,000, coupled with a realised net gain of £146,000 and an unrealised net gain of £623,000, are a result of the strength of our portfolio, and we have outperformed the Wealth Managers Association balanced index by 3%. We released £1,175,000 in net cash from this portfolio during the year.

**Administrative expenses:** Our ongoing administrative expenses increased by 11% in 2013, due primarily to the cost of a handover period for our incoming chief executive. Our costs remain tightly controlled as evidenced by their average increase of only 1.5% pa over the last three years.

**Financial highlights:** Our total profit for the year showed a 35% improvement on 2012, driven particularly by the capital performance of our property and equity investment portfolios. Our profit on revenue activities reduced to £2,921,000 (2012 £3,720,000) as the 2012 performance was significantly affected by the realised gains on investment property of £1,552,000. Excluding these realised gains on investment property, the underlying profit on revenue activities rose by 16%. Our year end net asset value per share increased to 821p (2012 759p). Our year end cash position was £3,128,000 (2012 £3,274,000), whilst readily realisable equity investments totalled £5,227,000 (2012 £5,713,000). During the year we took out two medium term loans and the year end balance was £4,000,000 (2012 nil)

**Dividend**

We are recommending a final dividend of 21.25p per share (2012 19.80p) to be paid on 30 May 2014 to shareholders registered on 2 May 2014, making a total of 33.75p for the year (2012 31.80p). This increase of 6% for the year continues our recent record of dividend increases well in excess of inflation.

**Board**

As you are aware Jonathan Kinglerlee retired from the Board on 31 July 2013 after 18 years. We are very grateful to Jonathan for his loyal service and contribution to the group. Simon Gill joined the board on 1 April 2013 as property director, bringing with him a wealth of experience in the property sector. Simon also assumed the role of chief executive upon Jonathan's retirement and has been instrumental in driving the group's recent active acquisition strategy.

## Outlook

We are very pleased with the results for the year and remain optimistic that we start 2014 from a position of strength upon which we hope to build through further attractive acquisitions. We have set ourselves some challenging objectives for 2014 and we expect that our actions will continue to improve shareholder value via increased dividends and asset values.

J HEWITT  
Chairman

26 March 2014

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## Consolidated statement of comprehensive income for the year ended 31 December 2013

	Note	2013			2012		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		2,731	-	2,731	2,351	-	2,351
Property operating expenses		(151)	-	(151)	(184)	-	(184)
<b>Net rental income</b>		<b>2,580</b>	<b>-</b>	<b>2,580</b>	<b>2,167</b>	<b>-</b>	<b>2,167</b>
Realised gains on investment property		415	-	415	1,552	-	1,552
Realised losses on investment property		-	-	-	-	-	-
<b>Net gains on investment property</b>		<b>1,552</b>	<b>-</b>	<b>1,552</b>	<b>1,552</b>	<b>-</b>	<b>1,552</b>
Revaluation gains on investment property		-	1,833	1,833	-	1,769	1,769
Revaluation losses on investment property		-	(590)	(590)	-	(2,355)	(2,355)
<b>Net valuation gains/(losses) on investment property</b>		<b>-</b>	<b>1,243</b>	<b>1,243</b>	<b>-</b>	<b>(586)</b>	<b>(586)</b>
Dividend revenue		234	-	234	251	-	251
Gains on equity investments		-	832	832	-	677	677
Losses on equity investments		-	(63)	(63)	-	(179)	(179)
<b>Net investment income/(expense)</b>		<b>234</b>	<b>769</b>	<b>1,003</b>	<b>251</b>	<b>498</b>	<b>749</b>
Administration expenses		(345)	-	(345)	(311)	-	(311)
<b>Net operating profit before net finance income</b>		<b>2,884</b>	<b>2,012</b>	<b>4,896</b>	<b>3,659</b>	<b>(88)</b>	<b>3,571</b>
Finance income		7	-	7	8	-	8
Finance expense		(61)	-	(61)	8	-	8
<b>Net finance (expense)/income</b>		<b>(54)</b>	<b>-</b>	<b>(54)</b>	<b>8</b>	<b>-</b>	<b>8</b>

Profit/(loss) before tax		2,830	2,012	4,842	3,667	(88)	3,579
Income tax credit/(expense)	1	91	(77)	14	53	(38)	15
<b>Total profit and comprehensive income for the year</b>		<b>2,921</b>	<b>1,935</b>	<b>4,856</b>	<b>3,720</b>	<b>(126)</b>	<b>3,594</b>
Basic and diluted earnings per share	3	56.5p	37.5p	94.0p	72.0p	(2.5p)	69.6p

**Consolidated statement of financial position**  
at 31 December 2013

	Note	2013 £'000	2012 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	4	39,415	31,609
Equity investments	5	5,227	5,713
<b>Total non-current assets</b>		<b>44,642</b>	<b>37,322</b>
<b>Current assets</b>			
Trade and other receivables		422	254
Cash and cash equivalents		3,128	3,274
<b>Total current assets</b>		<b>3,550</b>	<b>3,528</b>
<b>Total assets</b>		<b>48,192</b>	<b>40,850</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current income tax		-	-
Trade and other payables		1,160	1,000
<b>Total current liabilities</b>		<b>1,160</b>	<b>1,000</b>
<b>Non-current liabilities</b>			
Interest bearing loan	6	4,000	-
Deferred tax liabilities		604	609
<b>Total non-current liabilities</b>		<b>4,604</b>	<b>609</b>
<b>Total liabilities</b>		<b>5,764</b>	<b>1,609</b>
<b>Net assets</b>		<b>42,428</b>	<b>39,241</b>
<b>Equity</b>			
Issued share capital		1,292	1,292
Revaluation reserve - property		7,353	7,050
- other		1,972	1,746
Capital redemption reserve		95	95
Realised capital reserve		24,220	22,366
Retained earnings		7,496	6,692
<b>Total equity</b>		<b>42,428</b>	<b>39,241</b>

**Consolidated statement of changes in equity**

2013	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 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 gains	-	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

<b>2012</b>	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 2012	1,292	4,904	1,592	95	21,428	7,912	37,223	
Dividends	-	-	-	-	-	(1,576)	(1,576)	
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation losses	-	(586)	416	-	-	170	-	
Tax on revaluation gains/(losses)	-	-	(20)	-	-	20	-	
Realised gains	-	-	-	-	1,608	(1,608)	-	
Surplus attributable to assets sold in the year	-	912	(242)	-	(670)	-	-	
Excess of cost over revalued amount taken to retained earnings	-	1,820	-	-	-	(1,820)	-	
Transactions with owners	-	2,146	154	-	938	(4,814)	(1,576)	
Profit and total comprehensive income for the year	-	-	-	-	-	3,594	3,594	
At 31 December 2012	1,292	7,050	1,746	95	22,366	6,692	39,241	

## Consolidated statement of cash flows

for the year ended 31 December 2013

	2013	2012
	£'000	£'000
<b>Operating activities</b>		
Profit for the year	4,856	3,594
Adjustments for:		
Net valuation (gains)/losses on investment property	(1,243)	586
Gain on disposal of investment property	(415)	(1,552)
(Gain)/loss on investments	(769)	(498)
Finance income	(7)	(8)
Finance expense	61	-
Income tax credit	(14)	(15)
<b>Operating cash flow before changes in working capital and provisions</b>	2,469	2,107
Increase in trade and other receivables	(168)	(37)
Increase/(decrease) in trade and other payables	126	319
<b>Cash generated from operations</b>	2,427	2,389
Finance income	7	8
Finance expense	(27)	-
Income taxes received	7	-
<b>Net cash flows from operating activities</b>	2,414	2,397

<b>Investing activities</b>		
Purchase of non-current assets - investment property	(8,488)	(4,827)
- equity investments	(125)	(540)
Sale of non-current assets - investment property	2,340	4,972
- equity investments	1,382	922
<b>Net cash flows from investing activities</b>	<b>(4,891)</b>	<b>527</b>
<b>Financing activities</b>		
Dividends paid	(1,669)	(1,576)
New bank borrowings	4,000	-
<b>Net cash flows from financing activities</b>	<b>2,331</b>	<b>(1,576)</b>
Net (decrease)/increase in cash and cash equivalents	(146)	1,348
Cash and cash equivalents at 1 January 2012	3,274	1,926
Cash and cash equivalents at 31 December 2012	3,128	3,274

## Notes

for the year ended 31 December 2013

### 1 Income tax credit

	2013	2012
	£'000	£'000
Current tax:		
On revenue profits	(82)	(53)
On capital profits	34	18
Prior year overprovision	(9)	-
	<u>(57)</u>	<u>(35)</u>
Deferred tax	43	20
Income tax credit	<u>(14)</u>	<u>(15)</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012 24.5%).

The differences are explained as follows:

	2013	2012
	£'000	£'000
Profit before tax	4,842	3,579
Profit before tax multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 24.5%)	1,126	877
Effect of:		
Tax exempt revenues	(199)	(62)
Profit not taxable as a result of REIT status	(985)	(768)
Chargeable gains/losses less/(more) than accounting profit	48	10
Losses carried forward	12	(22)
Effect of change in tax rate on deferred tax liability	(7)	(50)
Adjustments to tax charge in respect of prior periods	(9)	-
Income tax credit	<u>(14)</u>	<u>(15)</u>

### 2 Dividends

In 2013 the following dividends have been paid by the company:

	2013	2012
	£'000	£'000
2012 Final: 19.8p per ordinary share (2011 18.5p)	1,023	956
2013 Interim: 12.5p per ordinary share (2012 12.0p)	646	620
	<u>1,669</u>	<u>1,576</u>

On 26 March 2014 the directors declared a property income distribution of £1,098,000, 21.25p per share (2012 £1,023,000, 19.80p per share) payable on 30 May 2014 to shareholders registered at 2 May 2014.

### 3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £4,856,000 (2012 £3,594,000) and on 5,167,240 shares (2012 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2013

and throughout the period since 1 January 2013. 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 £2,921,000 (2012 £3,720,000) has been calculated.

	2013 £'000	2012 £'000
Earnings:		
Basic profit for the year	4,856	3,594
Adjustments for:		
Net valuation (gains)/losses on investment property	(1,243)	586
Gains on investments	(769)	(498)
Income tax on gains/(losses)	77	38
Adjusted earnings	<u>2,921</u>	<u>3,720</u>
Per share amount:		
Earnings per share (unadjusted)	94.0p	69.6p
Adjustments for:		
Net valuation (gains)/losses on investment property	(24.1p)	11.3p
Gains on investments	(14.9p)	(9.6p)
Income tax on gains	1.5p	0.7p
Adjusted earnings per share	<u>56.5p</u>	<u>72.0p</u>

#### 4 Investment property

	2013 £'000	2012 £'000
Valuation at 1 January	31,609	30,787
Additions	8,488	4,827
Disposals	(1,925)	(3,419)
Revaluation (losses)/gains	1,243	(586)
Valuation at 31 December	<u>39,415</u>	<u>31,609</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 2013, 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

	2013 £'000	2012 £'000
Valuation at 1 January	5,713	5,598
Additions	127	540
Disposals	(1,236)	(849)
Surplus/(deficit) on revaluation in excess of cost	610	416
Revaluation decrease below cost	(4)	(17)
Revaluation increase still less than cost	17	25
Valuation at 31 December	<u>5,227</u>	<u>5,713</u>

#### 6 Interest bearing loan

	2013 £'000	2012 £'000
Medium term bank loans	<u>4,000</u>	-
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	-

## **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 2012. The accounting policies remain unchanged.

## **8 Annual General Meeting**

The Annual General Meeting will be held on 16 May 2014.

## **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 2013 on which the auditor has expressed an unqualified 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 17 April 2014 and subsequently filed at Companies House.

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