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Highcroft Investments PLC
15 March 2012

Highcroft Investments PLC

Preliminary results for the year ended 31 December 2011

KEY HIGHLIGHTS

- Gross property income increased by 4% to £2,129,000
- Profit for the year on revenue activities up 5% to £2,066,000
- Adjusted earnings per share (on revenue activities) up 6% to 40.1p
- Net asset value per share up to 720p from 716p
- Total property income distribution up 5% to 30.0p per share
- Cash and liquid equity investments £7,524,000 (2009: £8,080,000)

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Dear Shareholder,

I am pleased to introduce our Preliminary Results for the year ended 31 December 2011. I fear that shareholders reading this statement may experience a sense of déjà vu as my cautionary comments a year ago - about the national economy, the lack of prospects for growth, the subdued consumer attitude and resultant impact on retailers and commercial rents - apply equally today, with a European sovereign debt crisis thrown in for good measure. That said, I think I can echo my words of last year in that we have acquitted ourselves reasonably well in the circumstances.

Results for the year
I am pleased to report that we have made further, albeit modest, progress in a number of areas.

Property: Our gross property income rose 4% to £2,129,000 (2010: £2,053,000), despite falling residential property income as a result of disposals. Sales of vacant residential houses and flats produced nearly £2,086,000 of cash, very significantly above cost and £393,000 above the December 2010 valuations. Our commercial property in Yeovil, which had been vacant since 2009, was re-let in July and we then disposed of it in November. We benefited from a full year of rental income from the freehold industrial unit in Warwick that we purchased at the end of 2010. I can now confirm the completion of the purchase of an industrial unit in Andover which was mentioned in our interim report. This has a strong covenant, is let on a 23 year lease, and currently yields 6.4%, Again, we have to express our disappointment at the relative lack of success in being able to buy properties of the quality which we are seeking for our portfolio. The general recession in national property prices has tended to result in lower-quality portfolios being sold, often by banks, while the competition for properties matching our criteria (lot size, lease length, yield, and tenant strength) is still quite strong.

Equities: Our average income yield of 4.7% on the portfolio, coupled with a realised net gain of £57,000 and an unrealised net loss of £247,000, are a result of the strength of our portfolio during what has been a turbulent period for the equities markets.

Administrative expenses: Our ongoingadministrative expenses declined by 4% when normalised for the £20,000 of one-off costs associated with the General Meeting in May.

Financial highlights: Profit on revenue activities showed a 5% improvement on 2010. Turning to our capital performance, both our property and equity portfolios showed net valuation losses for the year, although the defensive strength of the underlying assets in both classes cushioned us from the significant losses that have been seen in some sectors.
Our year end net asset value edged ahead very marginally to 720p (2010: 716p), held back by the fall in property valuations in the second half of the year. Our year-end cash position was £1,926,000 (2010: £2,472,000), whilst readily realisable equity investments totalled £5,598,000 (2010: £5,608,000).

Dividend
We are recommending a final dividend of 18.5p per share (17.6p 2010) to be paid on 1 June 2012, making a total of 30p for the year (2010: 28.6p). This increase of 5% for the year continues our recent record of dividend increases in excess of inflation.

Board

It is with regret that I inform you that Christopher Clark has given notice that he wishes to retire from the Board on 31 May 2012, having reached his 70th birthday. Christopher has served on the Board, as chairman of the audit committee and as a member of the nomination and remuneration committees since 1 January 2006, and I would like to thank him for his loyal and diligent service during this period and wish him well in his retirement.

Outlook

Our property portfolio currently has no voids, the ground floor at Victoria having been let as from 1 March. Recent industry surveys show that retail voids are running nationally at 14.3% with evidence of trading stress in many High Streets. We continue to monitor closely the health of our existing and potential tenants. The location of the bulk of our property investments, both in terms of dominance in the southern counties and location within prime areas of most cities and towns in which we are represented, continues to result in a better than average experience in values, rents and voids. We continue to manage our assets well and are alert to possible opportunities within the portfolio. We see our principal task in the next year or two as being to take advantage of the weak market to invest in properties which will enable us to continue to grow revenues and asset values over the medium term. We have the financial strength and the borrowing capacity; we continue though to be prudent and do not want to compromise on our criteria. In continuing uncertain times, I hope shareholders will draw comfort from our strategy.

J HEWITT
Chairman

14 March 2012

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note		2011			2010	
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		2,129	-	2,129	2,053	-	2,053
Property operating expenses		(303)	-	(303)	(245)	-	(245)
Net rental income		1,826	-	1,826	1,808	-	1,808
Realised gains on investment property		360	-	360	108	-	108
Realised losses on investment property		(82)	-	(82)	(8)	-	(8)
Net gains on investment property		278	-	278	100	-	100
Valuation gains on investment property		-	801	801	-	1,735	1,735
Valuation losses on investment property		-	(1,072)	(1,072)	-	(158)	(158)
Net valuation (losses)/gains on investment property		-	(271)	(271)	-	1,577	1,577
Dividend revenue		261	-	261	234	-	234
Gains on equity investments		-	397	397	-	718	718
Losses on equity investments		-	(587)	(587)	-	(209)	(209)
Net investment income/(expense)		261	(190)	71	234	509	743
Administration expenses		(335)	-	(335)	(330)	-	(330)
Net operating profit before net finance income/(expense)		2,030	(461)	1,569	1,812	2,086	3,898
Finance income		15	-	15	10	-	10
Finance expenses		-	-	-	(1)	-	(1)
Net finance income		15	-	15	9	-	9
Profit/(loss) before tax		2,045	(461)	1,584	1,821	2,086	3,907
Income tax credit/(expense)	1	21	119	140	144	(89)	55
Total profit and comprehensive income for the year		2,066	(342)	1,724	1,965	1,997	3,962
Basic and diluted earnings per share	3	40.1p	(6.7p)	33.4p	38.0p	38.7p	76.7p

Consolidated statement of financial position

at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Non-current assets			
Investment property	4	30,787	30,705
Equity investments	5	5,598	5,608
Total non-current assets		36,385	36,313
Current assets			
Trade and other receivables		217	93
Cash and cash equivalents		1,926	2,472
Total current assets		2,143	2,565
Total assets		38,528	38,878
Liabilities			
Current liabilities			
Current income tax		-	215
Trade and other payables		681	897
Total current liabilities		681	1,112
Non-current liabilities			
Deferred tax liabilities		624	764
Total non-current liabilities		624	764
Total liabilities		1,305	1,876
Net assets		37,223	37,002
Equity			
Issued share capital		1,292	1,292
Revaluation reserve - property		4,904	6,670
- other		1,592	1,750
Capital redemption reserve		95	95
Realised capital reserve		21,428	19,810
Retained earnings		7,912	7,385
Total equity		37,223	37,002

Consolidated statement of changes in equity

2011	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 2011	1,292	6,670	1,750	95	19,810	7,385	37,002
Dividends	-	-	-	-	-	(1,503)	(1,503)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation losses	-	(271)	(238)	-	-	509	-
Tax on revaluation gains/(losses)	-	-	109	-	-	(109)	-
Realised gains	-	-	-	-	(40)	40	-
Surplus attributable to assets sold in the year	-	(1,629)	(29)	-	1,658	-	-
Excess of cost over revalued amount taken to retained earnings	-	134	-	-	-	(134)	-
Transactions with owners	-	(1,766)	(158)	-	1,618	(1,197)	(1,503)
Profit and total comprehensive income for the year	-	-	-	-	-	1,724	1,724
At 31 December 2011	1,292	4,904	1,592	95	21,428	7,912	37,223

2010	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 2010	1,292	5,696	2,656	95	18,229	6,467	34,435
Dividends	-	-	-	-	-	(1,395)	(1,395)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	1,577	572	-	-	(2,149)	-
Tax on revaluation gains/(losses)	-	-	(93)	-	-	93	-
Realised gains	-	-	-	-	(58)	58	-
Surplus attributable to assets sold in the year	-	(254)	(1,385)	-	1,639	-	-
Excess of cost over revalued amount taken to retained earnings	-	(349)	-	-	-	349	-
Transactions with owners	-	974	(906)	-	1,581	(3,044)	(1,395)
Profit and total comprehensive income for the year	-	-	-	-	-	3,962	3,962
At 31 December 2010	1,292	6,670	1,750	95	19,810	7,385	37,002

Consolidated statement of cash flows
for the year ended 31 December 2011

	2011 £'000	2010 £'000
Operating activities		
Profit for the year	1,724	3,962
Adjustments for:		
Net valuation losses/(gains) on investment property	271	(1,577)
Gain on disposal of investment property	(278)	(100)
Loss/(gain) on investments	191	(509)
Finance income	(15)	(10)
Finance expense	-	1
Income tax (credit)/expense	(140)	(55)
Operating cash flow before changes in working capital and provisions	1,753	1,712
(Increase)/decrease in trade and other receivables	(124)	10
(Decrease)/increase in trade and other payables	(216)	120
Cash generated from operations	1,413	1,842
Finance income	15	10
Finance expenses	-	(1)
Income taxes paid	(216)	(25)
Net cash flows from operating activities	1,212	1,826
Investing activities		
Purchase of non-current assets - investment property	(2,871)	(1,558)
- equity investments	(423)	(1,028)
Sale of non-current assets - investment property	2,796	355
- equity investments	243	3,326
Net cash flows from investing activities	(255)	1,095
Financing activities		
Dividends paid	(1,503)	(1,395)
Net cash flows from financing activities	(1,503)	(1,395)
Net (decrease)/increase in cash and cash equivalents	(546)	1,526
Cash and cash equivalents at 1 January 2011	2,472	946
Cash and cash equivalents at 31 December 2011	1,926	2,472

Notes
for the year ended 31 December 2011

1 Income tax credit

	2011 £'000	2010 £'000
Current tax:		
On revenue profits	(20)	(60)
On capital profits	15	(19)
Prior year overprovision	(1)	(69)
	(6)	(148)
Deferred tax	(134)	93
Income tax credit	(140)	(55)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 26.25% (2010 28%). The differences are explained as follows:

	2011 £'000	2010 £'000
Profit before tax	1,584	3,907
Profit before tax multiplied by standard rate of corporation tax in the UK of 26.25% (2010 28%).	416	1,094
Effect of:		
Tax exempt revenues	(69)	(66)
Profit not taxable as a result of REIT status	(431)	(976)
Chargeable gains/losses less/(more) than accounting profit	20	(38)
Losses carried forward	(25)	-
Effect of change in tax rate on deferred tax liability	(50)	-
Adjustments to tax charge in respect of prior periods	(1)	(69)
Income tax credit	(140)	(55)

2 Dividends

In 2011 the following dividends have been paid by the company:

	2011 £'000	2009 £'000
2010 Final: 17.6p per ordinary share (2009 16.0p)	909	827
2011 Interim: 11.5p per ordinary share (2010 11.0p)	594	568
	1,503	1,395

On 14 March 2012 the directors declared a property income distribution of £956,000, 18.5p per share (2010 £909,000, 17.6p per share) payable on 1 June 2012 to shareholders registered at 4 May 2012.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £1,724,000 (2010 £3,962,000) and on 5,167,240 shares (2010 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2011 and throughout the period since 1 January 2011. 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 £2,066,000 (2010 £1,965,000) has been calculated.

	2011 £'000	2010 £'000
Earnings:		
Basic profit for the year	1,724	3,962
Adjustments for:		
Net valuation losses/(gains) on investment property	271	(1,577)
Losses/(gains) on investments	190	(509)
Income tax on(losses)/gains	(119)	89
Adjusted earnings	2,066	1,965
Per share amount:		
Earnings per share (unadjusted)	33.4p	76.7p
Adjustments for:		
Net valuation losses/(gains) on investment property	5.3p	(30.5p)

Losses/(gains) on investments	3.7p	(9.9p)
Income tax on (losses)/gains	(2.3p)	1.7p
Adjusted earnings per share	40.1p	38.0p

4 Investment property

	2011	2010
	£'000	£'000
Valuation at 1 January	30,705	27,825
Additions	2,871	1,558
Disposals	(2,518)	(255)
Revaluation (losses)/gains	(271)	1,577
Valuation at 31 December	30,787	30,705

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 Jones Lang LaSalle, and Cluttons (for our new 2011 acquisition only), as external valuers and has been prepared as at 31 December 2011, 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.

5 Equity investments

	2011	2010
	£'000	£'000
Valuation at 1 January	5,608	7,397
Additions	423	1,028
Disposals	(186)	(3,393)
(Deficit)/surplus on revaluation in excess of cost	(238)	572
Revaluation decrease below cost	(15)	(6)
Revaluation increase still less than cost	6	10
Valuation at 31 December	5,598	5,608

6 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 2010, The accounting policies remain unchanged except in respect of the new amended standard IFRS 24 which has no impact on this announcement.

7 Annual General Meeting

The Annual General Meeting will be held on 10 May 2012.

8 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 2011 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 11 April 2012 and subsequently filed at Companies House.

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