

RNS Number : 3844A
Highcroft Investments PLC
20 March 2013

Highcroft Investments PLC

Preliminary results for the year ended 31 December 2012

KEY HIGHLIGHTS

- Gross property income increased by 10% to £2,351,000
- Net profit for the year on revenue activities up 80% to £3,720,000
- Adjusted earnings per share (on revenue activities) up 80% to 72.0p
- Net asset value per share up from 720p to 759p
- Total property income distribution up 6% to 31.8p per share
- Cash and liquid equity investments £8,987,000 (2011 £7,524,000)
- Nil gearing (2011 nil)

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Dear Shareholder,

I am pleased to announce our preliminary results for the year ended 31 December 2012 and to invite you to our Annual General Meeting on 17 May 2013.

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 both property assets and realisations from our equity portfolio.

Property: Our gross property rental income rose 10% to £2,351,000 (2011 £2,129,000), with all this increase being due to the performance of our commercial portfolio. This growth includes the effect of a full year's income from the industrial unit in Andover purchased in November 2011, coupled with the swift re-investment of monies released by the sale of Willow House, Victoria into two industrial units let to good covenants with higher yields and longer unexpired terms. These units are in Bedford, let to Booker and in Milton Keynes, let to Ikea. Performance of the portfolio has been excellent with the only void being a two month period on the ground floor of our Willow House property, and no bad debts in the period. The sale of Willow House was particularly pleasing as it had been purchased with a view to the potential redevelopment opportunities that might enhance its value and the sale proceeds reflected the realisation of this plan. The sales proceeds were £1,490,000 in excess of the value at 31 December 2011 and also above the purchase price in 2006. During the second half of the year we also concluded our negotiations for new leases on two of our Oxford High Street properties which have resulted in increased rental income in 2012 and increased valuations.

Equities: Our average income yield of 4.4% on the portfolio, coupled with a realised net gain of £75,000 and an unrealised net gain of £423,000, are a result of the strength of our portfolio and we have outperformed the FTSE 100 and the All Share indices.

Administrative expenses: Our ongoing administrative expenses reduced by 7% and our costs remain tightly controlled.

Financial highlights: Profit on revenue activities showed an 80% improvement on 2011, driven particularly by the profit arising on the sale of Willow House. Turning to our capital performance, the property portfolio showed a net valuation loss for the year, although the strength of the underlying assets and the new leases in Oxford meant that the loss was lower than the market as a whole. Our year end net asset value per share increased to 759p (2011 720p). Our year end cash position was £3,274,000 (2011 £1,926,000), whilst readily realisable equity investments totalled £5,713,000 (2011 £5,598,000).

Dividend

We are recommending a final dividend of 19.8p per share (2011 18.5p) to be paid on 31 May 2013 to shareholders registered at 3 May 2013, making a total of 31.8p for the year (2011 30p). This increase of 6% for the year continues our recent record of dividend increases well in excess of inflation.

Board

As you are aware Chris Clark retired from the Board on 31 May 2012. We have not replaced him as we believe that we have enough existing board expertise in our equities business which was an area in which he provided much counsel. The Board will continue to monitor the need for a third non-executive director having particular regard to the requirements of the UK Corporate Governance Code.

Outlook

We continue to regard our position as strong and are determined to take advantage of weak markets so as to enhance yield and strengthen covenants. Our success in achieving the group's objectives and commensurately growing asset values and your dividend will, to a large extent, depend upon the flow of suitable properties coming to market and our own management actions. We will continue to adopt a cautious stance whilst continuing our proactive approach with our property advisers to step up the pace of acquisitions to take advantage of market opportunities. We have a number of lease events taking place over the coming two years and we will endeavour to conclude these in a manner that enhances both income and valuation, but recognise that downwards pressure on rental levels, particularly for High Street Retail units, may continue for some time. We will carefully consider a modest level of gearing if we feel that suitable opportunities present themselves that cannot be financed from our own resources.

We believe that the company is well placed to take actions which will secure medium term growth for its shareholders.

J HEWITT
Chairman

19 March 2013

Consolidated statement of comprehensive income for the year ended 31 December 2012

| | Note | Revenue £'000 | 2012 Capital £'000 | Total £'000 | Revenue £'000 | 2011 Capital £'000 | Total £'000 |
|--|------|------------------|--------------------------|----------------|------------------|--------------------------|----------------|
| Gross rental revenue | | 2,351 | - | 2,351 | 2,129 | - | 2,129 |
| Property operating expenses | | (184) | - | (184) | (303) | - | (303) |
| Net rental income | | 2,167 | - | 2,167 | 1,826 | - | 1,826 |
| Realised gains on investment property | | 1,552 | - | 1,552 | 360 | - | 360 |
| Realised losses on investment property | | - | - | - | (82) | - | (82) |
| Net gains on investment property | | 1,552 | - | 1,552 | 278 | - | 278 |
| Valuation gains on investment property | | - | 1,769 | 1,769 | - | 801 | 801 |
| Valuation losses on investment property | | - | (2,355) | (2,355) | - | (1,072) | (1,072) |
| Net valuation (losses)/gains on investment property | | - | (586) | (586) | - | (271) | (271) |
| Dividend revenue | | 251 | - | 251 | 261 | - | 261 |
| Gains on equity investments | | - | 677 | 677 | - | 397 | 397 |
| Losses on equity investments | | - | (179) | (179) | - | (587) | (587) |
| Net investment income/(expense) | | 251 | 498 | 749 | 261 | (190) | 71 |
| Administration expenses | | (311) | - | (311) | (335) | - | (335) |
| Net operating profit before net finance income | | 3,659 | (88) | 3,571 | 2,030 | (461) | 1,569 |
| Finance income | | 8 | - | 8 | 15 | - | 15 |
| Net finance income | | 8 | - | 8 | 15 | - | 15 |
| Profit/(loss) before tax | | 3,667 | (88) | 3,579 | 2,045 | (461) | 1,584 |
| Income tax credit/(expense) | 1 | 53 | (38) | 15 | 21 | 119 | 140 |
| Total profit and comprehensive income for the year | | 3,720 | (126) | 3,594 | 2,066 | (342) | 1,724 |

Consolidated statement of financial position
at 31 December 2012

| | Note | 2012 £'000 | 2011 £'000 |
|--------------------------------------|------|---------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Investment property | 4 | 31,609 | 30,787 |
| Equity investments | 5 | 5,713 | 5,598 |
| Total non-current assets | | 37,322 | 36,385 |
| Current assets | | | |
| Trade and other receivables | | 254 | 217 |
| Cash and cash equivalents | | 3,274 | 1,926 |
| Total current assets | | 3,528 | 2,143 |
| Total assets | | 40,850 | 38,528 |
| Liabilities | | | |
| Current liabilities | | | |
| Current income tax | | - | - |
| Trade and other payables | | 1,000 | 681 |
| Total current liabilities | | 1,000 | 681 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 609 | 624 |
| Total non-current liabilities | | 609 | 624 |
| Total liabilities | | 1,609 | 1,305 |
| Net assets | | 39,241 | 37,223 |
| Equity | | | |
| Issued share capital | | 1,292 | 1,292 |
| Revaluation reserve - property | | 7,050 | 4,904 |
| - other | | 1,746 | 1,592 |
| Capital redemption reserve | | 95 | 95 |
| Realised capital reserve | | 22,366 | 21,428 |
| Retained earnings | | 6,692 | 7,912 |
| Total equity | | 39,241 | 37,223 |

Consolidated statement of changes in equity

| 2012 | 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 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 | - | 1,820 | - | - | - | (1,820) | - |

| | | | | | | | |
|--|----------------------|-------------------------------|-------|----------------------------|--------------------------|-------------------|---------|
| retained earnings | | | | | | | |
| 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 |
| 2011 | | | | | | | |
| | 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 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 gains | - | (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 |

Consolidated statement of cash flows

for the year ended 31 December 2012

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Operating activities | | |
| Profit for the year | 3,594 | 1,724 |
| Adjustments for: | | |
| Net valuation losses/(gains) on investment property | 586 | 271 |
| Gain on disposal of investment property | (1,552) | (278) |
| (Gain)/loss on investments | (498) | 190 |
| Finance income | (8) | (15) |
| Income tax credit | (15) | (140) |
| Operating cash flow before changes in working capital and provisions | 2,107 | 1,752 |
| Increase in trade and other receivables | (37) | (124) |
| Increase/(decrease) in trade and other payables | 319 | (215) |
| Cash generated from operations | 2,389 | 1,413 |
| Finance income | 8 | 15 |
| Income taxes paid | - | (216) |
| Net cash flows from operating activities | 2,397 | 1,212 |
| Investing activities | | |
| Purchase of non-current assets - investment property | (4,827) | (2,871) |
| - equity investments | (540) | (423) |
| Sale of non-current assets - investment property | 4,972 | 2,796 |
| - equity investments | 922 | 243 |
| Net cash flows from investing activities | 527 | (255) |
| Financing activities | | |
| Dividends paid | (1,576) | (1,503) |
| Net cash flows from financing activities | (1,576) | (1,503) |

| | | |
|--|--------------|--------------|
| Net increase/(decrease) in cash and cash equivalents | 1,348 | (546) |
| Cash and cash equivalents at 1 January 2012 | 1,926 | 2,472 |
| Cash and cash equivalents at 31 December 2012 | <u>3,274</u> | <u>1,926</u> |

Notes

for the year ended 31 December 2012

1 Income tax credit

| | 2012 £'000 | 2011 £'000 |
|--------------------------|---------------|---------------|
| Current tax: | | |
| On revenue profits | (53) | (20) |
| On capital profits | 18 | 15 |
| Prior year overprovision | - | (1) |
| | <u>(35)</u> | <u>(6)</u> |
| Deferred tax | 20 | (134) |
| Income tax credit | <u>(15)</u> | <u>(140)</u> |

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011 26.25%). The differences are explained as follows:

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Profit before tax | 3,579 | 1,584 |
| Profit before tax multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 26.25%) | 877 | 416 |
| Effect of: | | |
| Tax exempt revenues | (62) | (69) |
| Profit not taxable as a result of REIT status | (768) | (431) |
| Chargeable gains/losses less/(more) than accounting profit | 10 | 20 |
| Losses carried forward | (22) | (25) |
| Effect of change in tax rate on deferred tax liability | (50) | (50) |
| Adjustments to tax charge in respect of prior periods | - | (1) |
| Income tax credit | <u>(15)</u> | <u>(140)</u> |

2 Dividends

In 2012 the following dividends have been paid by the company:

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| 2011 Final: 18.5p per ordinary share (2010 17.6p) | 956 | 909 |
| 2012 Interim: 12.0p per ordinary share (2011 11.5p) | 620 | 594 |
| | <u>1,576</u> | <u>1,503</u> |

On 19 March 2013 the directors declared a property income distribution of £1,023,000, 19.8p per share (2011 £956,000, 18.5p per share) payable on 31 May 2013 to shareholders registered at 3 May 2013.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £3,594,000 (2011 £1,724,000) and on 5,167,240 shares (2011 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2012 and throughout the period since 1 January 2012. 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 £3,720,000 (2011 £2,066,000) has been calculated.

| | 2012 £'000 | 2011 £'000 |
|---|---------------|---------------|
| Earnings: | | |
| Basic profit for the year | 3,594 | 1,724 |
| Adjustments for: | | |
| Net valuation losses on investment property | 586 | 271 |
| (Gains)/losses on investments | (498) | 190 |

| | | |
|---|--------|--------|
| Income tax on gains/(losses) | 38 | (119) |
| Adjusted earnings | 3,720 | 2,066 |
| Per share amount: | | |
| Earnings per share (unadjusted) | 69.6p | 33.4p |
| Adjustments for: | | |
| Net valuation losses on investment property | 11.3p | 5.3p |
| Losses/(gains) on investments | (9.6p) | 3.7p |
| Income tax on (losses)/gains | 0.7p | (2.3p) |
| Adjusted earnings per share | 72.0p | 40.1p |

4 Investment property

| | | |
|----------------------------|---------|---------|
| | 2012 | 2011 |
| | £'000 | £'000 |
| Valuation at 1 January | 30,787 | 30,705 |
| Additions | 4,827 | 2,871 |
| Disposals | (3,419) | (2,518) |
| Revaluation (losses)/gains | (586) | (271) |
| Valuation at 31 December | 31,609 | 30,787 |

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 2012, 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

| | | |
|--|-------|-------|
| | 2012 | 2011 |
| | £'000 | £'000 |
| Valuation at 1 January | 5,598 | 5,608 |
| Additions | 540 | 423 |
| Disposals | (849) | (186) |
| Surplus/(deficit) on revaluation in excess of cost | 416 | (238) |
| Revaluation decrease below cost | (17) | (15) |
| Revaluation increase still less than cost | 25 | 6 |
| Valuation at 31 December | 5,713 | 5,598 |

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 2011. The accounting policies remain unchanged.

7 Annual General Meeting

The Annual General Meeting will be held on 17 May 2013.

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 2012 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 18 April 2012 and subsequently filed at Companies House.

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