

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

**Consolidated statement of financial position**  
at 31 December 2012

	Note	2012 £'000	2011 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	4	31,609	30,787
Equity investments	5	5,713	5,598
<b>Total non-current assets</b>		<b>37,322</b>	<b>36,385</b>
<b>Current assets</b>			
Trade and other receivables		254	217
Cash and cash equivalents		3,274	1,926
<b>Total current assets</b>		<b>3,528</b>	<b>2,143</b>
<b>Total assets</b>		<b>40,850</b>	<b>38,528</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current income tax		-	-
Trade and other payables		1,000	681
<b>Total current liabilities</b>		<b>1,000</b>	<b>681</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		609	624
<b>Total non-current liabilities</b>		<b>609</b>	<b>624</b>
<b>Total liabilities</b>		<b>1,609</b>	<b>1,305</b>
<b>Net assets</b>		<b>39,241</b>	<b>37,223</b>
<b>Equity</b>			
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
<b>Total equity</b>		<b>39,241</b>	<b>37,223</b>

**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

  

<b>2011</b>	Issued share capital	Revaluation reserves	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
<b>Operating activities</b>		
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)
<b>Operating cash flow before changes in working capital and provisions</b>	2,107	1,752
Increase in trade and other receivables	(37)	(124)
Increase/(decrease) in trade and other payables	319	(215)
<b>Cash generated from operations</b>	2,389	1,413
Finance income	8	15
Income taxes paid	-	(216)
<b>Net cash flows from operating activities</b>	2,397	1,212
<b>Investing activities</b>		
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
<b>Net cash flows from investing activities</b>	527	(255)
<b>Financing activities</b>		
Dividends paid	(1,576)	(1,503)
<b>Net cash flows from financing activities</b>	(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%)	<u>877</u>	<u>416</u>
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)	<u>620</u>	<u>594</u>
	<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 2013 and subsequently filed at Companies House.

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