

**Highcroft Investments PLC**

**Preliminary results for the year ended 31 December 2010**

**KEY HIGHLIGHTS**

- Gross property income increased by 5.7% to £2,053,000
- Profit for the year on revenue activities up 17.7% to £1,965,000
- Adjusted earnings per share (on revenue activities) up 17.6% to 38p
- Net asset value per share up 7.5% to 716p
- Total property income distribution up 10% to 28.6p per share
- Cash and liquid equity investments £8,080,000 (2009: £8,343,000)

**Enquiries:**

Highcroft Investments PLC  
John Hewitt / Roberta Miles                      01865 840023

Charles Stanley Securities  
Dugald J. Carlean / Karri Vuori                0207 149 6000

I am pleased to introduce our Preliminary Results for the year ended 31 December 2010 - a year which saw us making modest progress in a number of areas against a continuing difficult background. The highlights were a recovery in our gross property income and in our net asset value and a further advance in distributions to shareholders.

The background remained very muted in terms of the national economy with action to reduce the Government deficit and the still delicate position of much of the Banking industry impacting on consumer confidence, borrowing and general property activity and values. As far as the latter is concerned, the recovery seen in the first half of 2010 tended to tail away in the second part of the year and, as I write, market forecasts for 2011 and beyond continue to be guarded.

In such circumstances, we have benefited from the above average quality of our portfolio (which is focused on the relatively prosperous areas in South East England) and some good asset management therein. The latter includes successful rent reviews, lease extensions, progress on voids and continued close attention to the financial health of our current and prospective tenants. The latter is an important point given the latest statistics showing that nationally there is a 14% void rate in High Street shops and challenges facing retailers. I am pleased to report that we have no significant rent arrears and that the credit score across our portfolio is 84 - a very respectable rating and some seven points higher than a year ago.

If there is an area of disappointment, it is that we have been unable to make more than a modest addition to our property portfolio - a freehold industrial unit at Leamington Spa which we acquired at the end of the year. The lease length, 6.5% yield, and the financial strength of the tenant means this acquisition fits well into our portfolio strategy. Some of the work done in 2010 will, hopefully, benefit the current year in terms of potential acquisitions during 2011. I am pleased to confirm that we have, in 2011, exchanged an agreement to lease on our Yeovil property and completed the sale of two of our residential properties.

**Financial results - revenue activities**

Gross income, being gross rental and dividend revenue for the year ended 31 December 2010 was £2,287,000 (2009 £2,235,000).

Underlying commercial property income has risen in 2010 because the Warrington property that was void for the majority of 2009 is now fully let, and there was the benefit of higher income from rent reviews. Since the year end an agreement for lease has been signed for our Yeovil property.

Residential property income reduced in 2010 relative to 2009 because of the sale of one property in the first quarter of 2010, one property being void throughout 2010, and two others becoming empty during the year. Of these three empty properties the sales of two have completed in January 2011.

The 2010 income from equity investments fell primarily because of the reduced weighting of equities in our portfolio of assets.

## Financial results - capital activities

Our commercial property values held up well and we experienced a lower level of voids than did the market at large. There was a net valuation gain on the property portfolio of £1,577,000 and, after one acquisition and one residential disposal, the value of the portfolio was £30.7 million (2009 £27.8 million). We generated £2,298,000 net cashflow from the equity portfolio and used this to fund a new property purchase and to enhance our cash reserves. At the year end our remaining equities were valued at £5.6m representing 15% (2009 21%) of total investments. The board will continue to monitor the condition of the equity and property markets in 2011 and would consider making a further transfer of funds out of the equity investment portfolio and into the property portfolio, consistent with maintaining a lower risk profile.

## Summary

The net asset value per share rose by 7.5% to 716p (2009 666p). Total shareholders' funds were £37,002,000 (2009 £34,435,000).

The profit for the year after tax on revenue activities increased to £1,965,000 (2009 £1,670,000) and this enables us to increase the total property income distribution to 28.6p per share (2009 26.0p), of which 11p (2009 10p) was paid in October 2010 and 17.6p (2009 16p) will be paid on 2 June 2011. The basic earnings per share, which take account of capital activities, was 76.7p (2009 76.2p) and the adjusted earnings per share, adjusted to take out the effect of capital activities, increased 17.6% to 38.0p per share (2009 32.3p per share).

## Current trading and prospects

We hope that our sound year-end financial position with no gearing, and cash and liquid equity investments of £8,080,000 will enable us to take advantage of the increasing number of properties which seem likely to be coming to the market in the coming months.

J HEWITT  
Chairman  
23 March 2011

## Consolidated statement of comprehensive income for the year ended 31 December 2010

	Note	Revenue £'000	2010 Capital £'000	Total £'000	Revenue £'000	2009 Capital £'000	Total £'000
Gross rental revenue		2,053	-	2,053	1,943	-	1,943
Property operating expenses		(245)	-	(245)	(253)	-	(253)
<b>Net rental revenue</b>		<b>1,808</b>	<b>-</b>	<b>1,808</b>	<b>1,690</b>	<b>-</b>	<b>1,690</b>
Realised gains on investment property		108	-	108	-	-	-
Realised losses on investment property		(8)	-	(8)	-	-	-
<b>Net gains on investment property</b>		<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>
Valuation gains on investment property		-	1,735	1,735	-	1,616	1,616
Valuation losses on investment property		-	(158)	(158)	-	(416)	(416)
<b>Net valuation gains on investment property</b>		<b>-</b>	<b>1,577</b>	<b>1,577</b>	<b>-</b>	<b>1,200</b>	<b>1,200</b>
Dividend revenue		234	-	234	292	-	292
Gains on equity investments		-	718	718	-	1,679	1,679
Losses on equity investments		-	(209)	(209)	-	(234)	(234)
<b>Net investment income</b>		<b>234</b>	<b>509</b>	<b>743</b>	<b>292</b>	<b>1,445</b>	<b>1,737</b>
Administration expenses		(330)	-	(330)	(283)	-	(283)
<b>Net operating profit before net finance income/(expense)</b>		<b>1,812</b>	<b>2,086</b>	<b>3,898</b>	<b>1,699</b>	<b>2,645</b>	<b>4,344</b>
Finance income		10	-	10	2	-	2
Finance expenses		(1)	-	(1)	(20)	-	(20)
<b>Net finance income/(expense)</b>		<b>9</b>	<b>-</b>	<b>9</b>	<b>(18)</b>	<b>-</b>	<b>(18)</b>
<b>Profit before tax</b>		<b>1,821</b>	<b>2,086</b>	<b>3,907</b>	<b>1,681</b>	<b>2,645</b>	<b>4,326</b>
Income tax credit/(expense)	1	144	(89)	55	(11)	(377)	(388)

Total profit and comprehensive income for the year							
		1,965	1,997	3,962	1,670	2,268	3,938
Basic and diluted earnings per share	3	38.0p	38.7p	76.7p	32.3p	43.9p	76.2p

**Consolidated statement of financial position**  
at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	4	30,705	27,825
Equity investments	5	5,608	7,397
<b>Total non-current assets</b>		<b>36,313</b>	<b>35,222</b>
<b>Current assets</b>			
Trade and other receivables		93	103
Cash and cash equivalents		2,472	946
<b>Total current assets</b>		<b>2,565</b>	<b>1,049</b>
<b>Total assets</b>		<b>38,878</b>	<b>36,271</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current income tax		215	90
Trade and other payables		897	777
<b>Total current liabilities</b>		<b>1,112</b>	<b>867</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		764	969
<b>Total non-current liabilities</b>		<b>764</b>	<b>969</b>
<b>Total liabilities</b>		<b>1,876</b>	<b>1,836</b>
<b>Net assets</b>		<b>37,002</b>	<b>34,435</b>
<b>Equity</b>			
Issued share capital		1,292	1,292
Revaluation reserve - property		6,670	5,696
- other		1,750	2,656
Capital redemption reserve		95	95
Realised capital reserve		19,810	18,229
Retained earnings		7,385	6,467
<b>Total equity</b>		<b>37,002</b>	<b>34,435</b>

**Consolidated statement of changes in equity**

**2010**

	Equity	Revaluation reserves		Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	Property £'000	Other £'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)
Transactions with owners	-	-	-	-	-	(1,395)	(1,395)
Profit for the year	-	-	-	-	-	3,962	3,962
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	-
Total comprehensive income for the year	-	974	(906)	-	1,581	2,313	3,962

At 31 December 2010	1,292	6,670	1,750	95	19,810	7,385	37,002
---------------------	-------	-------	-------	----	--------	-------	--------

## 2009

	Equity	Revaluation reserves Property	Other	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2009	1,292	4,080	2,137	95	17,773	6,227	31,604
Dividends	-	-	-	-	-	(1,107)	(1,107)
Transactions with owners	-	-	-	-	-	(1,107)	(1,107)
Loss for the year	-	-	-	-	-	3,938	3,938
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	1,200	1,230	-	-	(2,430)	-
Tax on revaluation (losses)/gains	-	-	(343)	-	-	343	-
Realised gains	-	-	-	-	88	(88)	-
Surplus attributable to assets sold in the year	-	-	(368)	-	368	-	-
Excess of cost over revalued amount taken to retained earnings	-	416	-	-	-	(416)	-
Total comprehensive income for the year	-	1,616	519	-	456	1,347	3,938
At 31 December 2009	1,292	5,696	2,656	95	18,229	6,467	34,435

## Consolidated statement of cash flows

for the year ended 31 December 2010

	2010 £'000	2009 £'000
<b>Operating activities</b>		
Profit for the year	3,962	3,938
Adjustments for:		
Net valuation gains on investment property	(1,577)	(1,200)
Gain on disposal of investment property	(100)	-
Gain on investments	(509)	(1,445)
Finance income	(10)	(2)
Finance expense	1	20
Income tax (credit)/expense	(55)	388
<b>Operating cash flow before changes in working capital and provisions</b>	1,712	1,699
Decrease in trade and other receivables	10	120
Increase/(decrease) in trade and other payables	120	(49)
<b>Cash generated from operations</b>	1,842	1,770
Finance income	10	2
Finance expenses	(1)	(20)

Income taxes paid	(25)	(457)
<b>Net cash flows from operating activities</b>	<b>1,826</b>	<b>1,295</b>
<b>Investing activities</b>		
Purchase of non-current assets - investment property	(1,558)	(281)
- equity investments	(1,028)	(515)
Sale of non-current assets - investment property	355	-
- equity investments	3,326	1,845
<b>Net cash flows from investing activities</b>	<b>1,095</b>	<b>1,049</b>
<b>Financing activities</b>		
Loan repayments	-	(1,254)
Dividends paid	(1,395)	(1,107)
<b>Net cash flows from financing activities</b>	<b>(1,395)</b>	<b>(2,361)</b>
Net increase/(decrease) in cash and cash equivalents	1,526	(17)
Cash and cash equivalents at 1 January 2010	946	963
Cash and cash equivalents at 31 December 2010	<b>2,472</b>	<b>946</b>

## Notes

for the year ended 31 December 2010

### 1 Income tax (credit)/expense

	2010 £'000	2009 £'000
Current tax:		
On revenue profits	(60)	-
On capital profits	(19)	34
Prior year (over)/underprovision	(69)	11
	<b>(148)</b>	<b>45</b>
Deferred tax	93	343
Income tax (credit)/expense	<b>(55)</b>	<b>388</b>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained as follows:

	2010 £'000	2009 £'000
Profit before tax	3,907	4,326
Profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2009 28%).	1,094	1,211
Effect of:		
Tax exempt revenues	(66)	(66)
Profit not taxable as a result of REIT conversion	(976)	(809)
Chargeable gains/losses (more)/less than accounting profit	(38)	41
Adjustments to tax charge in respect of prior periods	(69)	11
Income tax (credit)/expense	<b>(55)</b>	<b>388</b>

### 2 Dividends

In 2010 the following dividends have been paid by the company.

	2010 £'000	2009 £'000
2009 Final: 16.0p per ordinary share (2008 11.4p)	827	589
2010 Interim: 11.0p per ordinary share (2009 10.0p)	568	518
	<b>1,395</b>	<b>1,107</b>

On 23 March 2011 the directors declared a property income distribution of 17.6p per share (2009 16.0p) payable on 2 June 2011 to shareholders registered at 6 May 2011.

### 3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £3,962,000 (2009 £3,938,000) and on 5,167,240 shares (2009 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2010 and throughout the period since 1 January 2010. 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 £1,965,000 (2009 £1,670,000) has been calculated.

	2010 £'000	2009 £'000
Earnings:		
Basic profit for the year	3,962	3,938
Adjustments for:		
Net valuation gains on investment property	(1,577)	(1,200)
Gains on investments	(509)	(1,445)
Income tax on gains	89	377
Adjusted earnings	1,965	1,670
Per share amount:		
Profit per share	76.7p	76.2p
Adjustments for:		
Net valuation gains on investment property	(30.5p)	(23.2p)
Gains on investments	(9.9p)	(28.0p)
Income tax on gains	1.7p	7.3p
Adjusted earnings per share	38.0p	32.3p

#### 4 Investment property

	2010 £'000	2009 £'000
Valuation at 1 January	27,825	26,344
Additions	1,558	281
Disposals	(255)	-
Revaluation gains	1,577	1,200
Valuation at 31 December	30,705	27,825

In accordance with IAS 40 the carrying value of investment properties is the fair value of the property as determined by Jones Lang LaSalle. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2010, 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

	2010 £'000	2009 £'000
Valuation at 1 January	7,397	7,282
Additions	1,028	515
Disposals	(3,393)	(1,723)
Surplus on revaluation in excess of cost	572	1,230
Revaluation decrease below cost	(6)	(18)
Revaluation increase still less than cost	10	111
Valuation at 31 December	5,608	7,397

#### 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 2009. The accounting policies remain unchanged except in respect of the new amended standards IFRS 3 and IAS 27 which have no impact on this announcement.

#### 7 Annual General Meeting

The Annual General Meeting will be held on 11 May 2011.

#### 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 2010 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 2011 and subsequently filed at Companies House.

The company news service from the London Stock Exchange

END

FR UOABRASAOUAR