

28 July 2017

Highcroft Investments PLC

Interim Report for the six months ended 30 June 2017

Key Highlights:

- *Gross rental income increased 20% to £2,238,000 (2016 £1,867,000)
- *Net rental income increased 19% to £2,119,000 (2016 £1,775,000)
- * No voids in our property portfolio (2016 none)
- *Total earnings per share increased 18% to 52.1p (2016 44.3p)
- *Net investment in property £7,801,000 (2016 net divestment £1,337,000)
- *Property valuation £74,819,000 (2016 £57,240,000) increased 2.0% on a like-for-like basis
- *Net assets per share increased 2.4% to 1097p (June 2016 1046p, December 2016 1071p)
- *Net debt £18,627,000 (June 2016 £4,794,000, December 2016 £11,531,000)
- *Interim property income distribution up 8.3% to 16.25p (2016 15.00p)

Dear Shareholder

I am pleased to report continued good trading results for the 6 months ended 30 June 2017.

Gross rental income has increased by 20%, reflecting the benefits arising from the ongoing strategy. Notwithstanding the likely uncertainties during the Brexit process, our confidence in the group's future is reflected in an interim property income distribution of 16.25p per share – an increase of 8.3% on 2016. This continues our long-standing policy and record of raising the dividend by more than inflation.

Results for the period

Property

Gross rental income has risen by 20%. This increase reflects the benefit of a full period's income from the Coventry and Grantham properties bought in August 2016, one quarter of income from the Nottingham purchase at the end of March 2017 and one month of income from the St Austell purchase. These increases have been offset by the reduction in income from the disposal of the properties in Staines in February 2017 and Warwick in December 2016. In addition, we have benefited from one positive rent review and one lease surrender premium. As in 2016 we have no voids. Property expenses for the six month period increased to £119,000 (2016 £92,000). A significant portion of these expenses relates to legal and professional fees that we have incurred in dealing with a leasehold enfranchisement claim at our one remaining residential asset. This claim failed at Tribunal; however, the leaseholders have exercised their right to appeal and we will

continue to incur costs on this exercise. Other property costs remain tightly controlled. As reported in the 2016 annual report, we completed on the sale of our Staines unit in February 2017 at a £1,000 profit to the year-end valuation.

The external independent valuation of the property portfolio at 30 June 2017 showed a gain of 2.0% on a like-for-like basis arising, in part, from a positive, backdated, rent review on our office building in Oxford, and from market sentiment lifting the value of the warehouse element of the portfolio. This gain mirrored the performance of the property market in general. Only one asset showed a loss on valuation and this arose on our Nottingham asset which was valued at cost (net of capitalised purchaser's fees).

The upgrading of the property portfolio continues with the aim of improving the weighted unexpired lease term, strengthening covenants and increasing the average lot size.

Our property portfolio is now valued at £74.8 million (2016 £57.2 million).

Equities

Equity markets strengthened in the second half of 2016, and we took advantage of this strength to reduce the portfolio by £0.5m in January 2017 in line with our stated long-term strategy. As a result, and together with the sales made in 2016, dividend income from the equity portfolio reduced to £38,000 (2016 £73,000). We raised £477,000 from the sale of equities at a gain of £18,000 to the year-end valuation. There was a net gain on valuation of £69,000 (2016 £200,000) in the half year. We intend to continue to reduce the equity portfolio in line with our stated strategy.

Financial

Earnings per share on revenue activities increased to 31.1p (2016 28.4p) due primarily to the increased net rental income, net of increased finance expenses. The more volatile measure of total earnings per share which includes unrealised valuation gains was 52.1p (2016 44.3p).

At 30 June 2017 the cash position was £657,000 (2016 £6,706,000), while our medium term loans totalled £19,400,000 (2016 £11,500,000) resulting in a net gearing level of 33% (2016 9%). In the period we have increased our borrowing by £4,500,000 to purchase the St Austell asset and have also put in place a short-term overdraft facility. The medium term loans are at fixed rates with a weighted average of 3.64%.

Dividend

I am pleased to report an interim property income distribution of 16.25p (2016 15.00p) per share, payable on 13 October 2017 to shareholders on the register at 15 September 2017 (with an ex-dividend date of 14 September 2017).

Outlook

One lease renewal is in negotiation and this, together with the income arising from the acquisitions completed in the first half of 2017, should enable us to increase underlying gross rental income in the second half of 2017. In addition we also have five rent reviews in process. We expect the full year results to continue to reflect the benefits of our strategy.

John Hewitt
Chairman
27 July 2017

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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Condensed consolidated interim statement of comprehensive income (unaudited)
for the six months ended 30 June 2017

	Note	Unaudited			Unaudited			Audited		
		First half 2017			First half 2016			Full year 2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Continuing operations										
Gross rental income		2,238	–	2,238	1,867	–	1,867	3,906	–	3,906
Property operating expenses		(119)	–	(119)	(92)	–	(92)	(198)	–	(198)
Net rental income		2,119	–	2,119	1,775	–	1,775	3,708	–	3,708
Realised gains on investment property		1	–	1	127	–	127	134	–	134
Realised losses on investment property		–	–	–	–	–	–	–	–	–
Net gain on disposal of investment property		1	–	1	127	–	127	134	–	134
Valuation gains on investment property		–	1,337	1,337	–	778	778	–	2,509	2,509
Valuation losses on investment property		–	(316)	(316)	–	(165)	(165)	–	(1,536)	(1,536)
Net valuation gains on investment property		–	1,021	1,021	–	613	613	–	973	973
Dividend income		38	–	38	73	–	73	144	–	144
Gains on investments		19	137	156	3	294	297	–	546	546
Losses on investments		(1)	(68)	(69)	(16)	(94)	(110)	–	(58)	(58)
Net investment income		56	69	125	60	200	260	144	488	632
Administrative expenses		(339)	–	(339)	(323)	–	(323)	(651)	–	(651)
Operating profit before net financing costs		1,837	1,090	2,927	1,639	813	2,452	3,335	1,461	4,796
Finance income		1	–	1	8	–	8	11	–	11
Finance expenses		(295)	–	(295)	(235)	–	(235)	(506)	–	(506)
Net finance costs		(294)	–	(294)	(227)	–	(227)	(495)	–	(495)
Profit before tax		1,543	1,090	2,633	1,412	813	2,225	2,840	1,461	4,301
Income tax credit	4	64	(4)	60	60	3	63	72	(30)	42
Total profit and comprehensive income for the financial period		1,607	1,086	2,693	1,472	816	2,288	2,912	1,431	4,343
Basic and diluted earnings per share	6	31.1p	21.0p	52.1p	28.4p	15.9p	44.3p	55.7p	28.3p	84.0p

Condensed consolidated interim statement of financial position (unaudited)

as at 30 June 2017

	Note	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Assets				
Investment property	7	74,819	57,240	65,997
Equity investments	8	2,079	2,851	2,469
Total non-current assets		76,898	60,091	68,466
Current assets				
Trade and other receivables		831	723	631
Cash at bank and in hand		657	6,706	3,369
Total current assets		1,488	7,429	4,000
Total assets		78,386	67,520	72,466
Liabilities				
Current liabilities				
Current corporation tax		8	–	8
Trade and other payables		1,988	1,613	1,858
Total current liabilities		1,996	1,613	1,866
Non-current liabilities				
Interest-bearing loans and borrowings	9	19,400	11,500	14,900
Deferred tax liabilities		315	362	375
Total non-current liabilities		19,715	11,862	15,275
Total liabilities		21,711	13,475	17,141
Net assets		56,675	54,045	55,325
Equity				
Issued share capital		1,292	1,292	1,292
Revaluation reserve – property		15,855	15,392	14,276
Revaluation reserve – other		423	465	659
Capital redemption reserve		95	95	95
Realised capital reserve		26,611	26,109	27,020
Retained earnings		12,399	10,692	11,983
Total equity		56,675	54,045	55,325

Condensed consolidated interim statement of changes in equity

for the six months ended 30 June 2017

First half 2017 – Unaudited

	Equity £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2017	1,292	14,276	659	95	27,020	11,983	55,325
Dividends	-	-	-	-	-	(1,343)	(1,343)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	1,021	69	-	-	(1,090)	-
Tax on revaluation gains/(losses)	-	-	-	-	-	-	-
Realised gains	-	-	-	-	16	(16)	-
Surplus attributable to assets sold	-	734	(309)	-	(425)	-	-
Excess of cost over revalued amount taken to retained earnings	-	(176)	4	-	-	172	-
Transactions with owners	-	1,579	(236)	-	(409)	(2,277)	(1,343)
Profit and total comprehensive income for the period	-	-	-	-	-	2,693	2,693
At 30 June 2017	1,292	15,855	423	95	26,611	12,399	56,675

First half 2016 – Unaudited

	Equity £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2016	1,292	14,764	667	95	25,586	10,619	53,023
Dividends	-	-	-	-	-	(1,266)	(1,266)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	613	200	-	-	(813)	-
Tax on revaluation gains	-	-	-	-	-	-	-
Realised gains	-	-	-	-	116	(116)	-
Surplus attributable to assets sold	-	-	(407)	-	407	-	-
Excess of cost over revalued amount taken to retained earnings	-	15	5	-	-	(20)	-
Transactions with owners	-	628	(202)	-	523	(2,215)	(1,266)
Profit and total comprehensive income for the period	-	-	-	-	-	2,288	2,288
At 30 June 2016	1,292	15,392	465	95	26,109	10,692	54,045

Condensed consolidated interim statement of

changes in equity for the six months ended 30 June 2017 (continued)

Full year 2016 – Audited

	Equity £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2016	1,292	14,764	667	95	25,586	10,619	53,023
Dividends	-	-	-	-	-	(2,041)	(2,041)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	973	467	-	-	(1,440)	-
Tax on revaluation gains	-	-	(26)	-	-	26	-
Realised gains	-	-	-	-	149	(149)	-
Surplus attributable to assets sold	-	(836)	(449)	-	1,285	-	-
Excess of cost over revalued amount taken to retained earnings	-	(625)	-	-	-	625	-
Transactions with owners	-	(488)	(8)	-	1,434	(2,979)	(2,041)
Profit and total comprehensive income for the period	-	-	-	-	-	4,343	4,343
At 31 December 2016	1,292	14,276	659	95	27,020	11,983	55,325

Condensed consolidated interim statement of cash flows
for the six months ended 30 June 2017

	Unaudited First half 2017 £'000	Unaudited First half 2016 £'000	Audited Full year 2016 £'000
Operating activities			
Profit before tax for the period	2,633	2,225	4,301
Adjustments for:			
Net valuation gains on investment property	(1,021)	(613)	(973)
Gain on disposal of investment property	(1)	(127)	(134)
Net gains on investments	(87)	(187)	(488)
Finance income	(1)	(8)	(11)
Finance expense	295	235	506
Operating cash flow before changes in working capital and provisions	1,818	1,525	3,201
Increase in trade and other receivables	(200)	(82)	10
Increase/(decrease) in trade and other payables	129	(50)	193
Cash generated from operations	1,747	1,393	3,404
Finance income	1	8	11
Finance expense	(295)	(235)	(506)
Income tax paid	–	–	–
Net cash flows from operating activities	1,453	1,166	2,909
Investing activities			
Purchase of fixed assets – investment property	(10,058)	–	(9,896)
– equity investments	–	(3)	(3)
Sale of fixed assets – investment property	2,258	1,464	2,972
– equity investments	477	493	1,176
Net cash flows from investing activities	(7,323)	1,954	(5,751)
Financing activities			
New bank borrowings	4,500	–	3,400
Dividends paid	(1,343)	(1,266)	(2,041)
Net cash flows from financing activities	3,157	(1,266)	1,359
Net (decrease)/increase in cash and cash equivalents	(2,712)	1,854	(1,483)
Cash and cash equivalents at 1 January	3,369	4,852	4,852
Cash and cash equivalents at period end	657	6,706	3,369

Notes (Unaudited)

for the six months ended 30 June 2017

1. Nature of operations and general information

Highcroft Investments PLC ('Highcroft') and its subsidiaries' (together 'the group') principal activity is investment in property and equities. It is incorporated and domiciled in Great Britain. The address of Highcroft's registered office, which is also its principal place of business, is Thomas House, Langford Locks, Kidlington, OX5 1HR. Highcroft's condensed consolidated interim financial statements are presented in Pounds Sterling (£), which is also the functional currency of the group. These condensed consolidated interim financial statements have been approved for issue by the directors on 27 July 2017. The financial information for the period ended 30 June 2017 set out in this interim report does not constitute statutory accounts as defined in Section 404 of the Companies Act 2006. The group's statutory financial statements for the year ended 31 December 2016 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or Section 498(5) of the Companies Act 2006.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2017. They have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2016.

These condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and the measurement of equity investments at fair value. These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2016.

The accounting policies have been applied consistently throughout the group for the purposes of preparation of these condensed consolidated interim financial statements.

The financial statements are drawn up on a going concern basis. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, and consider that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. Cash flow forecasts are prepared annually as part of the planning and budgeting process and are monitored and reworked regularly. The group has fixed-term non amortising borrowing and has additional headroom available. In addition the group has relatively liquid assets in the form of listed equity investments on which it can draw if necessary.

3. Segment reporting

Segmental information is presented in the condensed consolidated interim financial statements in respect of the group's business segments. The business segment reporting format reflects the group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. All gross income is from external tenants or external investments.

The group is comprised of the following main business segments:

- Commercial property comprising retail outlets, offices, warehouses and retail warehouses in England and Wales
- Residential property comprising flats in England
- Financial assets comprising exchange-traded equity investments.

3. Segment reporting (continued)

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Commercial property			
Gross income	2,230	1,855	3,886
Profit for the period	2,562	1,844	3,221
Assets	75,718	64,287	67,858
Liabilities	21,057	12,798	16,378
Residential property			
Gross income	8	12	20
(Loss)/profit for the period	(49)	133	473
Assets	584	375	584
Liabilities	1	–	–
Financial assets			
Gross income	38	73	144
Profit for the period	180	311	649
Assets	2,084	2,858	4,024
Liabilities	653	677	763
Total			
Gross income	2,276	1,940	4,050
Profit for the period	2,693	2,288	4,343
Assets	78,386	67,520	72,466
Liabilities	21,711	13,475	17,141

In 2017 the largest tenant represented 9% (2016 10%) and the second largest tenant represented 7% (2016 9%) of gross commercial property income for the period.

4. Income tax (credit)/expense

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Current tax:			
On revenue profits	(64)	(60)	12
On capital profits	4	(3)	(80)
	(60)	(63)	(68)
Deferred tax	–	–	26
	(60)	(63)	(42)

The taxation charge has been based on the estimated effective tax rate for the full year. As a Real Estate Investment Trust the group does not pay corporation tax on its profits and gains from its commercial and residential property activities.

5. Dividends

On 27 July 2017, the directors declared a property income distribution of 16.25p per share (2016 15.0p per share) payable on 13 October 2017 to shareholders registered at 15 September 2017.

The following property income distributions have been paid by the company:

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
2016 final: 26.0p per ordinary share (2015 final 24.5p)	1,343	1,266	1,266
2016 interim: 15.0p per ordinary share	–	–	775
	1,343	1,266	2,041

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £2,693,000 (2016 £2,288,000) and on 5,167,240 shares (2016 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2017 and throughout the period since 1 January 2016.

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 £1,607,000 (2016 £1,472,000) has been calculated.

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Earnings:			
Basic earnings	2,693	2,288	4,343
Adjustments for:			
Net valuation profits on investment property	(1,021)	(613)	(974)
Gains and losses on investments	(69)	(200)	(488)
Income tax on gains and losses	4	(3)	(4)
Adjusted earnings	1,607	1,472	2,877
Per share amount:			
Basic earnings per share	52.1p	44.3p	84.0p
Adjustments for:			
Net valuation gains on investment property	(19.8p)	(11.9p)	(18.9p)
Gains and losses on investments	(1.3p)	(3.9p)	9.4p
Income tax on gains and losses	0.1p	(0.1p)	–
Adjusted earnings per share	31.1p	28.4p	55.7p

7. Investment property

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Valuation at 1 January	65,997	57,964	57,964
Additions	10,058	-	9,896
Disposals	(2,257)	(1,337)	(2,836)
Gain on revaluation	1,021	613	973
Valuation at period end	74,819	57,240	65,997

The directors have used an external independent valuation of properties at 30 June 2017 which has been carried out consistently with the annual valuation.

8. Equity investments

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Valuation at 1 January	2,469	3,155	3,155
Additions	-	3	3
Disposals	(459)	(507)	(1,159)
Surplus on revaluation in excess of cost	72	206	467
Revaluation decrease below cost	(3)	(32)	(11)
Revaluation increase still below cost	-	26	14
Valuation at period end	2,079	2,851	2,469

9. Interest bearing loans

	First half 2017 £'000	First half 2016 £'000	Full year 2016 £'000
Medium term loans	19,400	11,500	14,900
The medium term bank loans comprise amounts falling due as follows:			
Between two and five years	11,500	4,000	4,000
Over five years	7,900	7,500	10,900

The debt is secured on certain assets within the group's property portfolio.

10. Related party transactions

Kingerlee Holdings Limited owns, through its wholly owned subsidiaries, 27.2% (2016 27.2%) of the company's shares and D H Kingerlee is a director of both the company and Kingerlee Holdings Limited.

During the period, the group made purchases from Kingerlee Limited a subsidiary of Kingerlee Holdings Limited, being a service charge in relation to services at Thomas House, Kidlington of £7,000 (2016 £7,000) and a recharge of costs of £180 (2016 £nil). The amount owed at 30 June 2017 was £nil (2016 £nil). All transactions were undertaken on an arm's length basis.

11. Net assets per share

	First half 2017	First half 2016	Full year 2016
Net assets	£56,675,000	£54,045,000	£55,325,000
Ordinary shares in issue	5,167,240	5,167,240	5,167,240
Basic net assets per share	1097p	1046p	1071p

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated set of half-year financial statements has been prepared in accordance with IAS 34. The half-year management report includes a fair review of the information required by 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, namely:

- an indication of the important events that have occurred during the first six months of the financial year ending 31 December 2017 and their impact on the condensed consolidated set of half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- disclosure of material related party transactions in the first six months of the financial year, and any material changes in the related party transactions described in the last annual report.

A list of current directors is maintained on the Highcroft Investments PLC website: www.highcroftplc.com.

By order of the board

John Hewitt

Chairman

27 July 2017