

9 August 2018



## Highcroft Investments PLC

Interim Report for the six months ended 30 June 2018

### Key Highlights:

- \*Gross rental income increased 9.1% to £2,442,000 (2017 £2,238,000)
- \*Net rental income increased 12% to £2,365,000 (2017 £2,119,000)
- \*No voids in our property portfolio (2017 none)
- \*Total earnings per share increased 7.1% to 55.8p (2017 52.1p)
- \*Net divestment from property £2,473,000 (2017 net investment £7,801,000)
- \*Property valuation £75,805,000 (2017 £74,819,000) an increase of 1.6% on a like-for-like basis
- \*Investment in property after the period end £4,925,000 net of costs
- \*Net assets per share increased 2.2% to 1187p (June 2017 1097p, December 2017 1161p)
- \*Net gearing £14,343,000/23% (June 2017 £18,627,000/33%, December 2017 £17,496,000/29%)
- \*Interim property income distribution up 15.4% to 18.75p (2017 16.25p)

Dear Shareholder

I am pleased to report continued good trading results for the 6 months ended 30 June 2018. The board is happy with the progress of its ongoing strategy of developing a high-quality income producing property portfolio, based on carefully sourced quality tenants, producing stable, secure income. This strategy has resulted in property income growth of 9.1%, an earnings per share increase of 7.1% and an increase in net assets per share of 2.2%.

During the period we pursued our stated goals of reducing our exposure to the High Street and disposing of our last residential assets. The first half of 2018 has remained challenging as the continued uncertainties surrounding Brexit affect both the occupational and investor markets. Our portfolio has been affected by only one CVA, where the tenant remains in occupation and the rent on that property has been reduced by £20,000pa (0.4% of gross rental income) whilst the lease term is unchanged.

Our ongoing confidence in the group's future is reflected in an interim property income distribution of 18.75p per share – an increase of 15.4% on 2017. This continues our long-standing policy and record of raising the dividend by more than inflation.

## Property portfolio

We sold two assets in the period, our retail and residential investment in Cirencester and our block of flats in Marylebone, which was in line with our stated strategy of selling our remaining residential properties and reducing our exposure to the High Street. The Cirencester property was sold for an amount of £100,000 in excess of the December 2017 valuation and the Marylebone property was sold to the tenants for an amount of £98,000 below the December 2017 valuation, but £325,000 in excess of their proposed enfranchisement value. After the period end we reinvested the total proceeds of £2,475,000, together with the proceeds of additional disposals of our equity investments, into the freehold of a health and fitness club in Birmingham for a net initial yield of 7.0%.

The external independent valuation of the property portfolio at 30 June 2018 showed a gain of 1.6% on a like-for-like basis for the first half of the year. This gain exceeded the IPD performance of the property market in general, which showed an increase of 1.4% for the period.

Gross rental income has risen by 9.1%. This increase reflects the benefit of a full period's income from the Nottingham and St Austell properties bought in March and June 2017, offset by the reduction in income from the disposal of our Cirencester asset and the fact that 2017 included a backdated rent review and a lease surrender premium. As was the case for 2017, we have no voids as at 30 June 2018. Property expenses for the six month period decreased to £77,000 (2017 £119,000) due to the previous period including significant professional fees associated with opposing the leaseholders unsuccessful leasehold enfranchisement attempt at our Marylebone property. This property was sold in the first half of this year.

We reduced our equity portfolio by £0.5m in January 2018 in line with our stated long-term strategy and we reduced it by a further £0.8m in July 2018. These proceeds have been reinvested into our property portfolio which we believe should generate a higher risk-adjusted return for shareholders.

## Financial

Earnings per share increased to 55.8p (2017 52.1p) due primarily to the combination of increased net rental income of £246,000, and an increase in unrealised property valuation gains of £144,000.

At 30 June 2018 the cash position was £5,057,000 (2017 £657,000) while our medium-term loans totalled £19,400,000 (2017 £19,400,000) resulting in a net gearing level of 23% (2017 33%). Immediately after the period end this surplus cash has been invested into our new property asset in Birmingham which was purchased for £4,925,000 net of costs. 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 18.75p (2017 16.25p) per share, payable on 12 October 2018 to shareholders on the register at 14 September 2018 (with an ex-dividend date of 13 September 2018).

## Outlook

We will continue with our stated strategy of investing in larger properties to drive investor returns, and are pleased with the Birmingham acquisition that we completed in July.

Whilst the ongoing retail environment is likely to remain challenging we believe that our historic asset selection criteria have helped to ensure that our current portfolio and tenant line-up create a strong base from which to continue to generate shareholder value.

We expect the full year results to continue to reflect the benefits of our strategy.

Charles Butler  
Chairman  
9 August 2018

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 2018

		Unaudited			Unaudited			Audited		
		First half 2018			First half 2017			Full year 2017		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Continuing operations</b>										
Gross rental income		2,442	-	2,442	2,238	-	2,238	4,765	-	4,765
Property operating expenses		(77)	-	(77)	(119)	-	(119)	(259)	-	(259)
<b>Net rental income</b>		<b>2,365</b>	<b>-</b>	<b>2,365</b>	<b>2,119</b>	<b>-</b>	<b>2,119</b>	<b>4,506</b>	<b>-</b>	<b>4,506</b>
<b>Net (loss)/gain on disposal of investment property</b>		<b>(42)</b>	<b>-</b>	<b>(42)</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>1</b>
Valuation gains on investment property		-	1,865	1,865	-	1,337	1,337	-	3,365	3,365
Valuation losses on investment property		-	(700)	(700)	-	(316)	(316)	-	(77)	(77)
<b>Net valuation gains on investment property</b>		<b>-</b>	<b>1,165</b>	<b>1,165</b>	<b>-</b>	<b>1,021</b>	<b>1,021</b>	<b>-</b>	<b>3,288</b>	<b>3,288</b>
Dividend income		27	-	27	38	-	38	92	-	92
Gains on investments		6	85	91	19	137	156	-	230	230
Losses on investments		(12)	(46)	(58)	(1)	(68)	(69)	-	(91)	(91)
<b>Net investment income</b>		<b>21</b>	<b>39</b>	<b>60</b>	<b>56</b>	<b>69</b>	<b>125</b>	<b>92</b>	<b>139</b>	<b>231</b>
<b>Administrative expenses</b>		<b>(368)</b>	<b>-</b>	<b>(368)</b>	<b>(339)</b>	<b>-</b>	<b>(339)</b>	<b>(663)</b>	<b>-</b>	<b>(663)</b>
<b>Operating profit before net financing costs</b>		<b>1,976</b>	<b>1,204</b>	<b>3,180</b>	<b>1,837</b>	<b>1,090</b>	<b>2,927</b>	<b>3,936</b>	<b>3,427</b>	<b>7,363</b>
Finance income		3	-	3	1	-	1	2	-	2
Finance expenses		(350)	-	(350)	(295)	-	(295)	(651)	-	(651)
<b>Net finance costs</b>		<b>(347)</b>	<b>-</b>	<b>(347)</b>	<b>(294)</b>	<b>-</b>	<b>(294)</b>	<b>(649)</b>	<b>-</b>	<b>(649)</b>
<b>Profit before tax</b>		<b>1,629</b>	<b>1,204</b>	<b>2,833</b>	<b>1,543</b>	<b>1,090</b>	<b>2,633</b>	<b>3,287</b>	<b>3,427</b>	<b>6,714</b>
Income tax credit	4	52	-	52	64	(4)	60	61	60	121
<b>Total profit and comprehensive income for the financial period</b>		<b>1,681</b>	<b>1,204</b>	<b>2,885</b>	<b>1,607</b>	<b>1,086</b>	<b>2,693</b>	<b>3,348</b>	<b>3,487</b>	<b>6,835</b>
<b>Basic and diluted earnings per share</b>	6			<b>55.8p</b>			<b>52.1p</b>			<b>132.3p</b>

Condensed consolidated interim statement of financial position (unaudited)

as at 30 June 2018

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
<b>Assets</b>				
Investment property	7	75,805	74,819	76,315
Equity investments	8	1,651	2,079	2,131
<b>Total non-current assets</b>		<b>77,456</b>	76,898	78,466
<b>Current assets</b>				
Investment property		-	-	798
Trade and other receivables		441	831	537
Cash at bank and in hand		5,057	657	1,904
<b>Total current assets</b>		<b>5,498</b>	1,488	3,239
<b>Total assets</b>		<b>82,954</b>	78,386	81,685
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		2,055	1,996	2,054
<b>Total current liabilities</b>		<b>2,055</b>	1,996	2,054
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	9	19,400	19,400	19,400
Deferred tax liabilities		187	315	254
<b>Total non-current liabilities</b>		<b>19,587</b>	19,715	19,654
<b>Total liabilities</b>		<b>21,642</b>	21,711	21,708
<b>Net assets</b>		<b>61,312</b>	56,675	59,977
<b>Equity</b>				
Issued share capital		1,292	1,292	1,292
Revaluation reserve – property		19,690	15,855	18,015
Revaluation reserve – other		209	423	538
Capital redemption reserve		95	95	95
Realised capital reserve		26,188	26,611	26,611
Retained earnings		13,838	12,399	13,426
<b>Total equity</b>		<b>61,312</b>	56,675	59,977

Condensed consolidated interim statement of changes in equity

for the six months ended 30 June 2018

**First half 2018 – Unaudited**

	Equity £'000	Revaluation reserves		Capital redemption on £'000	Realised capital £'000	Retained earnings £'000	Total £'000
		Property £'000	Other £'000				
<b>At 1 January 2018</b>	1,292	18,015	538	95	26,611	13,426	59,977
Transactions with owners: Dividends	-	-	-	-	-	(1,550)	(1,550)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	-	1,165	39	-	-	(1,204)	-
Tax on revaluation gains/(losses)	-	-	-	-	-	-	-
Realised losses	-	-	-	-	(46)	46	-
Surplus attributable to assets sold	-	745	(368)	-	(377)	-	-
Excess of cost over revalued amount taken to retained earnings	-	(235)	-	-	-	235	-
	-	1,675	(329)	-	(423)	(923)	-
Profit and total comprehensive income for the period	-	-	-	-	-	2,885	2,885
<b>At 30 June 2018</b>	<b>1,292</b>	<b>19,690</b>	<b>209</b>	<b>95</b>	<b>26,188</b>	<b>13,838</b>	<b>61,312</b>

**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
Transactions with owners: 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	-	-	-	-	-	-	-
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	-
	-	1,579	(236)	-	(409)	(934)	-
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

Condensed consolidated interim statement of changes in equity (continued)

for the six months ended 30 June 2018

**Full year 2017 – Audited**

	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
Transactions with owners: Dividends	–	–	–	–	–	(2,183)	(2,183)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains	–	3,288	124	–	–	(3,412)	–
Tax on revaluation gains	–	–	64	–	–	(64)	–
Realised gains	–	–	–	–	16	(16)	–
Surplus attributable to assets sold	–	734	(309)	–	(425)	–	–
Excess of cost over revalued amount taken to retained earnings	–	(283)	–	–	–	283	–
	–	3,739	(121)	–	(409)	(3,209)	–
Profit and total comprehensive income for the period	–	–	–	–	–	6835	6,835
At 31 December 2017	1,292	18,015	538	95	26,611	13,426	59,977

Condensed consolidated interim statement of cashflows  
for the six months ended 30 June 2018

	<b>Unaudited First half 2018 £'000</b>	Unaudited First half 2017 £'000	Audited Full year 2017 £'000
<b>Operating activities</b>			
Profit before tax for the period	<b>2,833</b>	2,633	6,714
Adjustments for:			
Net valuation gains on investment property	<b>(1,165)</b>	(1,021)	(3,288)
Net loss/(gain) on disposal of investment property	<b>42</b>	(1)	(1)
Net gains on investments	<b>(33)</b>	(87)	(139)
Finance income	<b>(3)</b>	(1)	(2)
Finance expense	<b>350</b>	295	651
<b>Operating cash flow before changes in working capital and provisions</b>	<b>2,024</b>	1,818	3,935
Decrease/(increase) in trade and other receivables	<b>96</b>	(200)	94
(Decrease)/increase in trade and other payables	<b>(14)</b>	129	196
<b>Cash generated from operations</b>	<b>2,106</b>	1,747	4,225
Finance income	<b>3</b>	1	2
Finance expense	<b>(350)</b>	(295)	(651)
Income tax paid	<b>-</b>	-	(8)
<b>Net cash flows from operating activities</b>	<b>1,759</b>	1,453	3,568
<b>Investing activities</b>			
Purchase of fixed assets – investment property	<b>-</b>	(10,058)	(10,086)
Sale of fixed assets – investment property	<b>2,431</b>	2,258	2,259
– equity investments	<b>513</b>	477	477
<b>Net cash flows from investing activities</b>	<b>2,944</b>	(7,323)	(7,350)
<b>Financing activities</b>			
Dividends paid	<b>(1,550)</b>	(1,343)	(2,183)
New bank borrowings	<b>-</b>	4,500	4,500
<b>Net cash flows from financing activities</b>	<b>(1,550)</b>	3,157	2,317
Net (decrease)/increase in cash and cash equivalents	<b>3,153</b>	(2,712)	(1,465)
Cash and cash equivalents at 1 January	<b>1,904</b>	3,369	3,369
<b>Cash and cash equivalents at period end</b>	<b>5,057</b>	657	1,904



## Notes (Unaudited)

for the six months ended 30 June 2018

### 1. Nature of operations and general information

Highcroft Investments PLC ('Highcroft') and its subsidiaries' (together 'the group') principal activity is investment in property. 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 9 August 2018. The financial information for the period ended 30 June 2018 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 2017 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 2018. 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 2017.

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 2017.

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

Prior to 1 January 2018 the group had two main business segments – property and financial assets. As was reported in the 2017 annual report the financial assets comprise less than 3% of the total assets of the group and the decision was made to combine all activities into one segment with effect from 1 January 2018.

In 2018 the largest tenant represented 10% (2017 9%) and the second largest tenant represented 8% (2017 7%) of gross commercial property income for the period.

### 4. Income tax (credit)/expense

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
Current tax:			
On revenue profits	<b>(52)</b>	(64)	(61)
On capital profits	-	4	3
	<b>(52)</b>	(60)	(58)
Deferred tax	-	-	(63)
	<b>(52)</b>	<b>(60)</b>	(121)

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 property activities.

## 5. Dividends

On 9 August 2018, the directors declared a property income distribution of 18.75p per share (2017 16.25p per share) payable on 12 October 2018 to shareholders registered at 14 September 2018.

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

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
2017 final: 30.0p per ordinary share (2016 final 26.0p)	<b>1,550</b>	1,343	1,343
2017 interim: 16.25p per ordinary share	-	-	840
	<b>1,550</b>	1,343	2,183

## 6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £2,885,000 (2017 £2,693,000) and on 5,167,240 shares (2017 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2018 and throughout the period since 1 January 2017.

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 £1,681,000 (2017 £1,607,000) has been calculated.

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
Earnings:			
Basic earnings	<b>2,885</b>	2,693	6,835
Adjustments for:			
Net valuation gains on investment property	<b>(1,165)</b>	(1,021)	(3,288)
Gains and losses on investments	<b>(39)</b>	(69)	(139)
Income tax on gains and losses	-	4	(60)
Adjusted earnings	<b>1,681</b>	1,607	3,348
Per share amount:			
Basic earnings per share	<b>55.8p</b>	52.1p	132.3p
Adjustments for:			
Net valuation gains on investment property	<b>(22.5p)</b>	(19.8p)	(63.6p)
Gains and losses on investments	<b>(0.8p)</b>	(1.3p)	(2.7p)
Income tax on gains and losses	-	0.1p	(1.2p)
Adjusted earnings per share	<b>32.5p</b>	31.1p	64.8p

## 7. Investment property

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
Valuation at 1 January	<b>77,113</b>	65,997	65,997
Additions	-	10,058	10,086
Disposals	<b>(2,473)</b>	(2,257)	(2,258)
Gain on revaluation	<b>1,165</b>	1,021	3,288
Valuation at period end	<b>75,805</b>	74,819	77,113
Less property categorised as a current asset	-	-	(798)
Property categorised as fixed asset	<b>75,805</b>	74,819	76,315

The directors have used an external independent valuation of properties at 30 June 2018 which has been carried out consistently with the annual valuation.

## 8. Equity investments

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
Valuation at 1 January	<b>2,131</b>	2,469	2,469
Additions	-	-	-
Disposals	<b>(519)</b>	(459)	(459)
Surplus on revaluation in excess of cost	<b>39</b>	72	124
Revaluation decrease below cost	<b>(-)</b>	(3)	(3)
Revaluation increase still below cost	-	-	-
Valuation at period end	<b>1,651</b>	2,079	2,131

## 9. Interest bearing loans

	<b>First half 2018 £'000</b>	First half 2017 £'000	Full year 2017 £'000
Medium term loans	<b>19,400</b>	19,400	19,400
The medium term bank loans comprise amounts falling due as follows:			
Between two and five years	<b>11,500</b>	11,500	4,000
Over five years	<b>7,900</b>	7,900	15,400

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% (2017 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 (2017 £7,000) and a recharge of costs of £nil (2017 £180). The amount owed at 30 June 2018 was £nil (2017 £nil). All transactions were undertaken on an arm's length basis.

## 11. Net assets per share

	<b>First half 2018</b>	First half 2017	Full year 2017
Net assets	<b>£61,312,000</b>	£56,675,000	£59,977,000
Ordinary shares in issue	<b>5,167,240</b>	5,167,240	5,167,240
Basic net assets per share	<b>1187p</b>	1097p	1161p

## 12. Events after the balance sheet date

On 23 July 2018 the Company completed the purchase of the freehold interest of a health and fitness club investment in Birmingham for a purchase price of £4,925,000 net of costs. The contracts were exchanged on 26 June 2018. In July a further £822,000 was released from the equity portfolio in order to help fund the Birmingham acquisition.

### 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 2018 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](http://www.highcroftplc.com).

By order of the board

Charles Butler

*Chairman*

9 August 2018