
Highcroft Investments PLC

Interim Report
30 June 2010

Highcroft Investments PLC

Highlights

- Net rental income up 6.3% to £926,000 (2009 £871,000).
- An improved profit before tax of £1,212,000 (2009 loss £489,000).
- Basic earnings per share on all activities was 25.4p (2009 loss per share 8.8p).
- Net asset value per share increased to 676p (June 2009 591p and December 2009 666p).
- Interim property income distribution will be 11.00p per share compared with 10.00p in 2009.
- No gearing and net cash £3,065,000 (2009 £573,000) equivalent to 59p per share (2009 11p per share).

Dear Shareholder

The results for the six months ended June 2010 continue to reflect the vagaries of the marketplace – both as regards the property and the equity markets. The property market, having seen something of a bounce in 2009 after the sharp falls of a year earlier, now seems generally to be marking time and this has certainly been our own experience. Whilst our property portfolio has risen some 11% from the valuation of a year earlier, increases have moderated since December 2009. Equally, we took the opportunity of equity market volatility to reduce our portfolio albeit at levels lower than the 2009 year end and we have incurred some revaluation losses on our portfolio at 30 June 2010. Both of these factors help to explain the minimal rise in our net asset value to 676p from a year end figure of 666p but nonetheless this is a 14.4% increase on the June 2009 figure of 591p.

In revenue terms, net rental income rose by 6.3% – reflecting a small rise in gross rentals and a reduction in property operating expenses. This rise was offset at the group operating profit level by the fall in equity dividend income as a result of our reduced investment in equities. The underlying earnings per share (excluding capital and revaluation movements) was 16.7p against 16.6p a year earlier.

Shareholders will remember that, following our move to REIT status, the interim dividend last year rose substantially from 7.0p to 10.0p per share. We are pleased to report a further increase this year to 11.0p.

We have taken the opportunity in the last few months to strengthen our financial position both by working towards having a fully-let property portfolio (which we hope to achieve with the letting of our only vacant property in Yeovil, during the second half) and by reducing our equity portfolio.

While our cash and borrowing capability give us the capacity to enhance our property portfolio, we are still cautious as to many current valuations, especially where rents are under pressure. We are in a strong financial position and continue to seek ways of ensuring that we lay the foundations of medium term growth and continuing to deliver value to shareholders.

Yours sincerely

J Hewitt
Chairman

26 August 2010

Condensed Consolidated Interim Statement of Comprehensive Income for the six months ended 30 June 2010

	Note	Unaudited First Half 2010			Unaudited First Half 2009			Audited Full Year 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Continuing operations										
Gross rental income		1,002	–	1,002	983	–	983	1,943	–	1,943
Property operating expenses		(76)	–	(76)	(112)	–	(112)	(253)	–	(253)
Net rental income		<u>926</u>	<u>–</u>	926	<u>871</u>	<u>–</u>	871	<u>1,690</u>	<u>–</u>	1,690
Realised gains on investment property		–	42	42	–	–	–	–	–	–
Net gain on disposal of investment property		<u>–</u>	<u>42</u>	42	<u>–</u>	<u>–</u>	–	<u>–</u>	<u>–</u>	–
Valuation gains on investment property		–	755	755	–	293	293	–	1,616	1,616
Valuation losses on investment property		–	(25)	(25)	–	(1,460)	(1,460)	–	(416)	(416)
Net valuation gains/(losses) on investment property		<u>–</u>	<u>730</u>	730	<u>–</u>	<u>(1,167)</u>	(1,167)	<u>–</u>	<u>1,200</u>	1,200
Dividend income		101	–	101	142	–	142	292	–	292
Gains on investments		–	105	105	–	494	494	–	1,679	1,679
Losses on investments		–	(527)	(527)	–	(671)	(671)	–	(234)	(234)
Net investment income/(loss)		<u>101</u>	<u>(422)</u>	(321)	<u>142</u>	<u>(177)</u>	(35)	<u>292</u>	<u>1,445</u>	1,737
Administrative expenses		<u>(168)</u>	<u>–</u>	(168)	<u>(148)</u>	<u>–</u>	(148)	<u>(283)</u>	<u>–</u>	(283)
Operating profit/(loss) before net financing costs		<u>859</u>	<u>350</u>	1,209	<u>865</u>	<u>(1,344)</u>	(479)	<u>1,699</u>	<u>2,645</u>	4,344
Finance income		5	–	5	2	–	2	2	–	2
Finance expenses		(2)	–	(2)	(12)	–	(12)	(20)	–	(20)
Net finance costs		<u>3</u>	<u>–</u>	3	<u>(10)</u>	<u>–</u>	(10)	<u>(18)</u>	<u>–</u>	(18)
Profit/(loss) before tax		<u>862</u>	<u>350</u>	1,212	<u>855</u>	<u>(1,344)</u>	(489)	<u>1,681</u>	<u>2,645</u>	4,326
Income tax credit/(expense)	4	–	103	103	–	32	32	(11)	(377)	(388)
Total profit/(loss) and comprehensive income/(expense) for the financial period		<u>862</u>	<u>453</u>	1,315	<u>855</u>	<u>(1,312)</u>	(457)	<u>1,670</u>	<u>2,268</u>	3,938
Basic and diluted earnings/(loss) per share	6	16.7p	8.7p	25.4p	16.6p	(25.4)p	(8.8)p	32.3p	43.9p	76.2p

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2010

	Note	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Audited 31 December 2009 £'000
Assets				
Non-current assets				
Investment property	7	28,300	25,458	27,825
Equity investments	8	5,221	6,530	7,397
Total non-current assets		33,521	31,988	35,222
Current assets				
Trade and other receivables		83	97	103
Cash at bank and in hand		3,065	573	946
Total current assets		3,148	670	1,049
Total assets		36,669	32,658	36,271
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		–	14	–
Current income tax		286	100	90
Trade and other payables		792	792	777
Total current liabilities		1,078	906	867
Non-current liabilities				
Interest-bearing loans and borrowings	9	–	637	–
Deferred tax liabilities		668	557	969
Total non-current liabilities		668	1,194	969
Total liabilities		1,746	2,100	1,836
Net assets		34,923	30,558	34,435
Equity				
Issued share capital		1,292	1,292	1,292
Revaluation reserve – property		6,442	4,277	5,696
Revaluation reserve – other		1,630	1,740	2,656
Capital redemption reserve		95	95	95
Realised capital reserve		19,238	18,174	18,229
Retained earnings		6,226	4,980	6,467
Total equity		34,923	30,558	34,435

Condensed Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2010

a) First half 2010 – Unaudited

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption Reserve £'000	Realised Capital Reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2010	1,292	5,696	2,656	95	18,229	6,467	34,435
Dividends	-	-	-	-	-	(827)	(827)
Transactions with owners	-	-	-	-	-	(827)	(827)
Profit for the period	-	-	-	-	-	1,315	1,315
Non-distributable items recognised in income statement:							
Revaluation gains/(losses)	-	730	(27)	-	-	(703)	-
Tax on revaluation gains and losses	-	-	69	-	-	(69)	-
Realised losses	-	-	-	-	(95)	95	-
(Surplus)/deficit attributable to assets sold in the period	-	(9)	(1,095)	-	1,104	-	-
Excess of cost over revalued amount taken to retained earnings	-	25	27	-	-	(52)	-
Total comprehensive income/(expense) for the period	-	746	(1,026)	-	1,009	586	1,315
At 30 June 2010	1,292	6,442	1,630	95	19,238	6,226	34,923

b) First half 2009 – Unaudited

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption Reserve £'000	Realised Capital Reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2009	1,292	4,080	2,137	95	17,773	6,227	31,604
Dividends	-	-	-	-	-	(589)	(589)
Transactions with owners	-	-	-	-	-	(589)	(589)
Loss for the period	-	-	-	-	-	(457)	(457)
Non-distributable items recognised in income statement:							
Revaluation gains/(losses)	-	(1,167)	(254)	-	-	1,421	-
Tax on revaluation gains and losses	-	-	51	-	-	(51)	-
Realised gains	-	-	-	-	59	(59)	-
(Surplus)/deficit attributable to assets sold in the period	-	-	(342)	-	342	-	-
Excess of cost over revalued amount taken to retained earnings	-	1,364	148	-	-	(1,512)	-
Total comprehensive income/(expense) for the period	-	197	(397)	-	401	(658)	(457)
At 30 June 2009	1,292	4,277	1,740	95	18,174	4,980	30,558

Condensed Consolidated Interim Statement of Changes in Equity (continued) for the six months ended 30 June 2010

c) Full year 2009 – Audited

	Equity	Revaluation reserves		Capital	Realised	Retained	Total
	£'000	Property £'000	Other £'000	Redemption Reserve £'000	Capital Reserve £'000	Earnings £'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)
Profit for the period	—	—	—	—	—	3,938	3,938
Non-distributable items recognised in income statement:							
Revaluation gains/(losses)	—	1,200	1,230	—	—	(2,430)	—
Tax on revaluation gains and losses	—	—	(343)	—	—	343	—
Realised gains	—	—	—	—	88	(88)	—
(Surplus)/deficit attributable to assets sold in the period	—	—	(368)	—	368	—	—
Excess of cost over revalued amount taken to retained earnings	—	416	—	—	—	(416)	—
Total comprehensive income for the period	—	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

Condensed Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2010

	Unaudited First Half 2010 £'000	Unaudited First Half 2009 £'000	Audited Full Year 2009 £'000
Operating activities			
Profit/(loss) for the period	1,315	(457)	3,938
Adjustments for:			
Net valuation (gains)/losses on investment property	(730)	1,167	(1,200)
Gain on disposal of investment property	(42)	-	-
Net losses/(gains) on investments	422	177	(1,445)
Finance income	(5)	(2)	(2)
Finance expense	2	12	20
Income tax (expense)/credit	(103)	(32)	388
Operating cash flow before changes in working capital and provisions	859	865	1,699
Decrease in trade and other receivables	20	126	120
Increase/(decrease) in trade and other payables	13	(34)	(49)
Cash generated from operations	892	957	1,770
Finance income	5	2	2
Finance expense	(2)	(12)	(20)
Income tax paid	-	(440)	(457)
Net cash flows from operating activities	895	507	1,295
Investing activities			
Purchase of fixed assets – investment property	-	(281)	(281)
– equity investments	(727)	(161)	(515)
Sale of fixed assets – investment property	297	-	-
– equity investments	2,481	737	1,845
Net cash flows from investing activities	2,051	295	1,049
Financing activities			
Loan repayments	-	(603)	(1,254)
Dividends paid	(827)	(589)	(1,107)
Net cash flows used in financing activities	(827)	(1,192)	(2,361)
Net increase/(decrease) in cash and cash equivalents	2,119	(390)	(17)
Cash and cash equivalents at 1 January 2010	946	963	963
Cash and cash equivalents at 30 June 2010	3,065	573	946

Notes (unaudited) for the six months ended 30 June 2010

1. Nature of operations and general information

Highcroft Investments PLC ('Highcroft') and its subsidiary (together 'the group') principal activities are investment in property and equities. It is incorporated and domiciled in Great Britain. The address of Highcroft Investments PLC'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 parent company. These condensed consolidated interim financial statements have been approved for issue by the directors on 26 August 2010. The financial information for the year ended 31 December 2009 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The group's statutory financial statements for the year ended 31 December 2009 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 2010. They have been prepared in accordance with IAS34, Interim Financial Reporting as adopted by the European Union. 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 2009.

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 2009.

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

3. Segmental reporting

The operating segment reporting format identifies the operating segments, the performance of which is monitored by the group's management using a consistent internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group is comprised of the following main operating segments:

- Commercial property comprising retail outlets, offices and warehouses.
- Residential property comprising mainly single-let houses.
- Financial assets comprising exchange-traded equity investments.

Notes (unaudited) for the six months ended 30 June 2010

3. Segmental reporting (continued)

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Commercial property			
Gross income	970	950	1,877
Profit/(loss) for the period	1,212	(491)	2,236
Assets	29,024	24,038	26,485
Liabilities	630	1,238	656
Residential property			
Gross income	32	33	66
Profit for the period	338	54	375
Assets	2,423	2,077	2,386
Liabilities	10	11	3
Financial assets			
Gross income	101	142	292
(Loss)/profit for the period	(235)	(20)	1,327
Assets	5,222	6,543	7,400
Liabilities	1,106	851	1,177
Total			
Gross income	1,103	1,125	2,235
Profit/(loss) for the period	1,315	(457)	3,938
Assets	36,669	32,658	36,271
Liabilities	1,746	2,100	1,836

22% of gross commercial property income arises from two tenants each representing more than 10% of income.

Notes (unaudited) for the six months ended 30 June 2010

4. Taxation

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Current tax:			
On revenue profits	–	–	–
On capital profits	(34)	19	34
Prior year underprovision	–	–	11
	<u>(34)</u>	<u>19</u>	<u>45</u>
Deferred tax	(69)	(51)	343
	<u>(103)</u>	<u>(32)</u>	<u>388</u>

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 26 August 2010, the directors declared a property income dividend of 11.00p per share (2009 10.00p interim dividend) payable on 20 October 2010 to shareholders registered at 24 September 2010.

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

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
2009 final: 16.00p per ordinary share (2008 final 11.40p)	827	589	589
2009 interim: 10.00p per ordinary share	–	–	518
	<u>827</u>	<u>589</u>	<u>1,107</u>

Notes (unaudited) for the six months ended 30 June 2010

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £1,315,000 (2009 loss £457,000) and on 5,167,240 shares (2009 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2010 and throughout the period since 1 January 2009.

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 £862,000 (2009 £855,000) has been calculated.

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Earnings:			
Basic earnings	1,315	(457)	3,938
Adjustments for:			
Net valuation (profits)/losses on investment property	(772)	1,167	(1,200)
Gains and losses on investments	422	177	(1,445)
Income tax on (gains)/losses	(103)	(32)	377
Adjusted earnings	862	855	1,670
Per share amount:			
Basic earnings per share	25.4p	(8.8)p	76.2p
Adjustments for:			
Net valuation gains on investment property	(14.9)p	22.6p	(23.2)p
Gains and losses on investments	8.2p	3.4p	(28.0)p
Income tax on gains and losses	(2.0)p	(0.6)p	7.3p
Adjusted earnings per share	16.7p	16.6p	32.3p

Notes (unaudited) for the six months ended 30 June 2010

7. Investment property

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Valuation at 1 January 2010	27,825	26,344	26,344
Additions	–	281	281
Disposals	(255)	–	–
Gain/(loss) on revaluation	730	(1,167)	1,200
Valuation at 30 June 2010	28,300	25,458	27,825

The directors have used an external independent valuation of properties at 30 June 2010 which has been carried out consistently with the annual valuation.

8. Equity investments

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Valuation at 1 January 2010	7,397	7,282	7,282
Additions	727	161	515
Disposals	(2,601)	(659)	(1,723)
(Deficit)/surplus on revaluation in excess of cost	(290)	(161)	1,230
Revaluation decrease below cost	(27)	(160)	(18)
Revaluation increase still below cost	15	67	111
Valuation at 30 June 2010	5,221	6,530	7,397

Notes (unaudited) for the six months ended 30 June 2010

9. Interest-bearing loans and borrowings

	First Half 2010 £'000	First Half 2009 £'000	Full Year 2009 £'000
Medium term bank loan	—	637	—
The medium term bank loan comprises amounts falling due as follows:			
Between one and two years	—	71	—
Between two and five years	—	238	—
Over five years	—	328	—
	—	637	—

10. Related party transactions

Kingerlee Holdings Limited owns, through its wholly owned subsidiaries, 25.4% (2009 25.4%) of the company's shares and D H Kingerlee and J C Kingerlee are directors of the company, Kingerlee Holdings Limited and its wholly owned subsidiaries and shareholders of the company and Kingerlee Holdings Limited. During the period, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being a service charge in relation to services at Thomas House, Kidlington of £7,000 (2009 £7,000). The amount owed at 30 June 2010 was nil (2009 nil). All transactions were undertaken on an arm's length basis.