

HIGHCROFT INVESTMENTS PLC

Interim Report

30 June 2006

Chairman's

Statement for the six months ended 30 June 2006

Highlights

- Profit before taxation excluding capital activities, increased by 15.0% to £1,013,000 (2005 £881,000).
- Profit before taxation including capital activities increased by 31.2% to £3,329,000 (2005 £2,538,000).
- Interim dividend increased by 8.0% to 4.70p per share from 4.35p in 2005.
- Net assets per share up to 800p (June 2005 697p and December 2005 758p).

Summary

The IFRS accounting rules, which require that revaluations of assets are reflected in the "income statement" (which replaced the profit and loss account under UK GAAP), mean that we are reporting pre-tax profit of £3.329 million – a rise of almost a third. While this does give shareholders a fair view of the increase in total value of the group, we also provide a revenue summary on page 3 as this reflects the ongoing operating profits from which, after taxation, we pay dividends. On this basis, excluding realised and unrealised gains on assets, pre-tax profits are up 15.0% to £1.013 million while after tax profits are ahead by 17.8% to £0.775 million. The latter figure produces earnings per share of 15.1p (50.5p including realised and revaluation gains). We are pleased, therefore, to announce an interim dividend of 4.70p – the increase of 8.0% being well in excess of inflation.

Revenue activities

Profit excluding valuation and capital gains was up 15.0% at the pre-tax level and 17.8% post-tax. This was a result of an increase in rental income (a reflection of rent reviews and new property). Dividend income rose strongly reflecting increases in general but also some exceptional dividend payments. Costs – property and administration – were up 10.5%, while interest charges reflect our higher, but still modest, levels of borrowing.

Capital activities

For both property and equity investments our strategy continues to be to invest for the long term and in January we purchased a property in Staines at a total cost of £3,054,000. In the property sector we also continue to take opportunities to sell residential units and the smaller commercial properties in our portfolio. This resulted in net gains of £236,000 in the period, while valuation gains were

£2,016,000 spread geographically and between the different types of property. We look for further investment opportunities which meet our criteria and expect to increase our borrowings modestly in so doing. The property portfolio value was £37.818 million at 30 June 2006.

Equity markets can be much more volatile than property in the short term and this proved to be the case in this half year when virtually all the progress of the first four months was lost in a sharp correction. In the event, our portfolio ended the half year with a slight increase in value over 31 December 2005 at £10.645 million.

Net asset value

The enhancement in value of our portfolios – principally property – and the retained earnings generated in the business has resulted in net asset value per share rising to 800p compared with 697p at 30 June 2005 and 758p at 31 December 2005. We would remind shareholders that these figures are now calculated after providing for tax potentially payable on the sale of the entire portfolio.

Outlook

We hope to be able to report further progress in profits and asset values by the end of the year despite the uncertainties which continue to cloud the domestic and international scene. The strength of our balance sheet and our long term focus continue to underpin our confidence.

As has already been announced I shall retire from the board on 30 September 2006. John Hewitt will become chairman of the board, Richard Stansfield will take over from John as senior independent director and Christopher Clark will become chairman of the audit committee.

G J Kingerlee

Chairman

6 September 2006

Condensed

Consolidated Income Statement (unaudited) for the six months ended 30 June 2006

	Note	First Half 2006			First Half 2005			Full Year 2005		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	2005 £'000
Gross rental income		1,041	-	1,041	943	-	943	1,917	-	1,917
Property operating expenses		(49)	-	(49)	(57)	-	(57)	(125)	-	(125)
Net rental income		992	-	992	886	-	886	1,792	-	1,792
Realised gains on investment property		-	243	243	-	44	44	-	44	44
Realised losses on investment property		-	(7)	(7)	-	-	-	-	(36)	(36)
Profit on disposal of investment property		-	236	236	-	44	44	-	8	8
Valuation gains on investment property		-	2,230	2,230	-	1,191	1,191	-	3,464	3,464
Valuation losses on investment property		-	(214)	(214)	-	(34)	(34)	-	(65)	(65)
Net valuation gains on investment property		-	2,016	2,016	-	1,157	1,157	-	3,399	3,399
Dividend income		237	-	237	155	-	155	339	-	339
Gains on investments		-	352	352	-	629	629	-	1,748	1,748
Losses on investments		-	(288)	(288)	-	(173)	(173)	-	(142)	(142)
Net investment income		237	64	301	155	456	611	339	1,606	1,945
Administrative expenses		(141)	-	(141)	(115)	-	(115)	(222)	-	(222)
Operating profit before net financing costs		1,088	2,316	3,404	926	1,657	2,583	1,909	5,013	6,922
Finance income		5	-	5	4	-	4	8	-	8
Finance expenses		(80)	-	(80)	(49)	-	(49)	(92)	-	(92)
Net financing costs		(75)	-	(75)	(45)	-	(45)	(84)	-	(84)
Profit before tax		1,013	2,316	3,329	881	1,657	2,538	1,825	5,013	6,838
Income tax expense	4	(238)	(484)	(722)	(223)	(394)	(617)	(459)	(1,092)	(1,551)
Profit for the financial period		775	1,832	2,607	658	1,263	1,921	1,366	3,921	5,287
Earnings per share	6	15.1p	35.4p	50.5p	12.8p	24.4p	37.2p	26.4p	75.9p	102.3p

Condensed

Highcroft Investments PLC

Consolidated Balance Sheet (unaudited) as at 30 June 2006

	Note	30 June 2006 £'000	30 June 2005 £'000	31 December 2005 £'000
Assets				
Investment property	7	37,818	31,446	33,461
Equity investments	8	10,645	9,427	10,620
Total non-current assets		48,463	40,873	44,081
Current assets				
Trade and other receivables		578	241	301
Cash at bank and in hand		157	201	725
Total current assets		735	442	1,026
Total assets		49,198	41,315	45,107
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		137	69	71
Current corporation tax		422	361	358
Trade and other payables		711	685	725
Total current liabilities		1,270	1,115	1,154
Non-current liabilities				
Interest-bearing loans and borrowings	10	2,917	1,465	1,429
Deferred tax liabilities		3,669	2,712	3,360
Total non-current liabilities		6,586	4,177	4,789
Total liabilities		7,856	5,292	5,943
Net assets		41,342	36,023	39,164
Equity				
Issued share capital	9	1,292	1,292	1,292
Revaluation reserve – property	9	10,016	7,039	8,734
Revaluation reserve – other	9	3,865	3,091	3,902
Capital redemption reserve	9	95	95	95
Realised capital reserve	9	15,892	15,153	15,306
Retained earnings	9	10,182	9,353	9,835
Total equity		41,342	36,023	39,164

Condensed

Consolidated Statement of Cash Flows (unaudited) for the six months ended 30 June 2006

	First Half 2006 £'000	First Half 2005 £'000	Full Year 2005 £'000
Operating activities			
Profit for the period	2,607	1,921	5,287
Adjustments for:			
Net valuation gains on investment property	(2,016)	(1,157)	(3,399)
Profit on disposal of investment property	(236)	(44)	(8)
Net gains on investments	(64)	(456)	(1,606)
Finance income	(5)	(4)	(8)
Finance expense	80	49	92
Income tax expense	722	617	1,551
Operating profit before changes in working capital and provisions	1,088	926	1,909
(Increase)/decrease in trade and other receivables	(277)	129	68
(Decrease)/increase in trade and other payables	(14)	7	46
Cash generated from operations	797	1,062	2,023
Finance income	5	4	8
Finance expense	(80)	(49)	(92)
Income tax paid	(350)	(278)	(564)
Cash flows from operating activities	372	739	1,375
Investing activities			
Purchase of fixed assets – investment property	(3,054)	–	–
– equity investments	(616)	(615)	(958)
Sale of fixed assets – investment property	950	278	469
– equity investments	655	374	675
Cash flows from investing activities	(2,065)	37	186
Financing activities			
New medium term loan	1,602	–	–
Loan repayments	(48)	(34)	(70)
Dividends paid	(429)	(395)	(620)
Cash flows from investing activities	1,125	(429)	(690)
Net increase in cash and cash equivalents	(568)	347	871
Cash and cash equivalents at 1 January 2006	725	(146)	(146)
Cash and cash equivalents at 30 June 2006	157	201	725

for the six months ended 30 June 2006

1. Interim report

The results for the six months ended 30 June 2006 are unaudited. This interim report will not appear as an advertisement in any newspaper but copies are being sent to all shareholders and are available at the company's registered office. The interim report does not constitute full accounts as defined by the Companies Act 1985 but should be read in conjunction with the most recent financial statements. Full accounts for 2005 have been delivered to the Registrar of Companies, bearing an unqualified audit opinion.

2. Significant accounting policies

Highcroft Investments PLC is a company domiciled in the United Kingdom. The interim financial statements of the company for the six months ended 30 June 2006 comprise the company and its subsidiary, together referred to as the group.

a. Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 on Interim Financial Reporting.

b. Basis of preparation

The interim financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that investment property and equity investments are stated at their fair value. The accounting policies have been consistently applied to the results, other gains and losses, assets, liabilities and cash flows of entities included in the consolidated interim financial statements and are consistent with those used in the previous year.

3. Segmental reporting

Segmental information is presented in the 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.

The group is comprised of the following main business 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 2006

3. Segmental reporting (continued)

	First Half 2006 £'000	First Half 2005 £'000	Full Year 2005 £'000
Commercial property			
Gross income	967	906	1,833
Profit for the period	1,824	1,430	3,774
Assets	35,825	29,124	31,951
Liabilities	5,559	3,184	3,659
Residential property			
Gross income	74	37	84
Profit/(loss) for the period	507	13	(19)
Assets	2,630	2,753	2,521
Liabilities	643	673	621
Financial assets			
Gross income	237	155	339
Profit for the period	276	478	1,532
Assets	10,743	9,438	10,635
Liabilities	1,654	1,435	1,663
Total			
Gross income	1,278	1,098	2,256
Profit for the period	2,607	1,921	5,287
Assets	49,198	41,315	45,107
Liabilities	7,856	5,292	5,943

4. Taxation

	First Half	First Half	Full Year
	2006	2005	2005
	£'000	£'000	£'000
Current tax:			
On revenue profits	238	223	460
On capital profits	60	20	8
Prior year overprovision	–	–	(1)
Deferred tax	424	374	1,084
	<u>722</u>	<u>617</u>	<u>1,551</u>

The taxation charge has been based on the estimated effective tax rate for the full year.

5. Dividends

On 6 September 2006, the directors declared an ordinary interim dividend of 4.70p per share (2005 4.35p) payable on 31 October 2006 to shareholders registered at 6 October 2006.

The following dividends have been paid by the company.

	First Half	First Half	Full Year
	2006	2005	2005
	£'000	£'000	£'000
8.30p per ordinary share (2005 7.65p)	429	395	395
2005 interim 4.35p per ordinary share	–	–	225
	<u>429</u>	<u>395</u>	<u>620</u>

Notes (unaudited)

for the six months ended 30 June 2006

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £2,607,000 (2005 £1,921,000) and on 5,167,240 shares (2005 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2006 and throughout the period since 1 January 2005.

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 £775,000 (2005 £658,000) has been calculated.

	First Half 2006 £'000	First Half 2005 £'000	Full Year 2005 £'000
Earnings:			
Basic earnings	2,607	1,921	5,287
Adjustments for:			
Net valuation gains on investment property	(2,252)	(1,201)	(3,407)
Gains and losses on investments	(64)	(456)	(1,606)
Income tax on gains and losses	484	394	1,092
Adjusted earnings	775	658	1,366
Per share amount:			
Basic earnings per share	50.5p	37.2p	102.3p
Adjustments for:			
Net valuation gains on investment property	(43.6)p	(23.2)p	(65.9)p
Gains and losses on investments	(1.2)p	(8.8)p	(31.1)p
Income tax on gains and losses	9.4p	7.6p	21.1p
Adjusted earnings per share	15.1p	12.8p	26.4p

7. Investment property

	First Half	First Half	Full Year
	2006	2005	2005
	£'000	£'000	£'000
Valuation at 1 January 2006	33,461	30,523	30,523
Additions	3,054	–	–
Disposals	(713)	(233)	(461)
Surplus on revaluation	2,016	1,156	3,399
Valuation at 30 June 2006	37,818	31,446	33,461

The directors have used an external independent valuation of properties at 30 June 2006.

8. Equity investments

Listed and unlisted	First Half	First Half	Full Year
	2006	2005	2005
	£'000	£'000	£'000
Valuation at 1 January 2006	10,620	8,731	8,731
Additions	614	615	958
Disposals	(740)	(343)	(643)
Surplus on revaluation	151	424	1,574
Valuation at 30 June 2006	10,645	9,427	10,620

Notes (unaudited)

for the six months ended 30 June 2006

9. Total equity

a) First half 2006

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
At 1 January 2006	1,292	8,734	3,902	95	15,306	9,835	39,164
Total recognised gain and expense	-	-	-	-	-	2,607	2,607
Dividends to shareholders	-	-	-	-	-	(429)	(429)
Non-distributable items recognised in income statement:							
Revaluation gains	-	2,016	151	-	-	(2,167)	-
Tax on valuation gains and losses	-	(419)	(6)	-	-	425	-
Realised gains	-	-	-	-	89	(89)	-
Surplus attributable to assets sold	-	(400)	(213)	-	613	-	-
Tax on gains attributable to assets sold	-	85	31	-	(116)	-	-
At 30 June 2006	<u>1,292</u>	<u>10,016</u>	<u>3,865</u>	<u>95</u>	<u>15,892</u>	<u>10,182</u>	<u>41,342</u>

b) First half 2005

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
At 1 January 2005	1,292	6,322	2,933	95	14,766	9,089	34,497
Total recognised gain and expense	-	-	-	-	-	1,921	1,921
Dividends to shareholders	-	-	-	-	-	(395)	(395)
Non-distributable items recognised in income statement:							
Revaluation gains	-	1,156	424	-	-	(1,580)	-
Tax on valuation gains and losses	-	(269)	(105)	-	-	374	-
Realised gains	-	-	-	-	56	(56)	-
Surplus attributable to assets sold	-	(233)	(214)	-	447	-	-
Tax on gains attributable to assets sold	-	63	53	-	(116)	-	-
At 30 June 2005	<u>1,292</u>	<u>7,039</u>	<u>3,091</u>	<u>95</u>	<u>15,153</u>	<u>9,353</u>	<u>36,023</u>

9. Total equity *(continued)*

c) Full year 2005

	Equity £'000	Revaluation reserves		Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2005	1,292	6,322	2,933	95	14,766	9,089	34,497
Total recognised gain and expense	-	-	-	-	-	5,287	5,287
Dividends to shareholders	-	-	-	-	-	(620)	(620)
Non-distributable items recognised in income statement:							
Revaluation gains	-	3,399	1,574	-	-	(4,973)	-
Tax on valuation gains and losses	-	(653)	(431)	-	-	1,084	-
Realised gains	-	-	-	-	32	(32)	-
Surplus attributable to assets sold	-	(457)	(229)	-	686	-	-
Tax on gains attributable to assets sold	-	123	55	-	(178)	-	-
At 31 December 2005	<u>1,292</u>	<u>8,734</u>	<u>3,902</u>	<u>95</u>	<u>15,306</u>	<u>9,835</u>	<u>39,164</u>

Notes (unaudited)

for the six months ended 30 June 2006

10. Interest-bearing loans and borrowings

	First Half 2006 £'000	First Half 2005 £'000	Full Year 2005 £'000
Medium term bank loan	2,917	1,465	1,429
The medium term bank loan comprises amounts falling due as follows:			
Between one and two years	71	71	71
Between two and five years	238	238	238
Over five years	2,608	1,156	1,120
	2,917	1,465	1,429

11. Related party transactions

Kingerlee Holdings Limited owns 24.5% (2005 24.4%) of the company's shares and D H Kingerlee, G J Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During the period, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £3,000 (2005 £1,000) and a service charge in relation to services at Thomas House, Kidlington of £7,000 (2005 £7,000). The amount owed at 30 June 2006 was nil (2005 £7,000). All transactions were undertaken on an arm's length basis.