HIGHCROFT INVESTMENTS PLC

Interim Report

30 June **2008**

Chairman's
Statement for the six months ended 30 June *2008*

Highlights

- **Profit after taxation excluding capital activities is up by 41.4% to £976,000 (June 2007 £690,000) following our conversion to a REIT.**
- **Loss after taxation including capital activities is £3,184,000 (June 2007 £1,375,000 profit). Market falls partially offset, in the case of property, by the released deferred tax liability.**
- **Interim property income distribution will be 7.00p per share compared with a 5.00p ordinary interim dividend in 2007 but with different tax consequences for shareholders.**
- **Net assets per share down to 736p (June 2007 847p and December 2007 807p).**

Dear Shareholder

I suspect that shareholders will not be surprised to see that the interim statement makes for more difficult reading than those of recent years. The problems of the commercial property sector have been well trailed in the media, with good growth in rental and capital values over the last decade being brought to a very swift end, and reversed, by the problems of the global credit crunch. Our caution first expressed in the 2006 Annual Report, stressed more in subsequent communications, is justified by the current economic problems. Many commentators suggest that these are the most difficult trading conditions since the early 1970s. That having been said, while we expect circumstances to deteriorate further in the short term and we continue to be cautious about the timing and strength of any recovery, I would like to reassure shareholders as to our medium term prospects and strategy.

Before moving to the medium term outlook, however, I must say something about how the economic problems have affected us. You will see from the accompanying figures that we have suffered a further decline in both the value of our property portfolio and of our equity investments. There are brighter spots in both areas but overall we report that net asset value per share has fallen to 736p from 807p at December 2007 and a high of 847p a year ago. While it is disappointing to record falls in asset values, we feel that the disposition of our portfolio, the lack of any meaningful level of gearing and the beneficial tax impact of conversion to a REIT has protected shareholders from greater declines.

In terms of the reported income statement, I would, once again, emphasise that the headline figure – a loss after taxation of £3.2m – is calculated under International Financial Reporting Standards which require changes in asset values to be shown in the income statement. If we look at the revenue figures – the nearest approximation to the old profit and loss account – the picture is a little steadier. On the minus front our operating expenses are higher – as a result of voids at two of our properties and the costs of the second EGM necessary to achieve REITs status – but on the plus side we have had higher dividend income, lower finance costs and the start of REITs tax benefits. Earnings per share on an adjusted basis are therefore 19.0p per share against 13.3p in the comparable period last year.

The outlook for the rest of the financial year and 2009 continues to look difficult and we remain cautious therefore. Our property portfolio continues, we believe, to look the right shape for the medium term. We are working hard to get new tenants in the Yeovil and Warrington properties which are currently empty but while success there would aid the valuations, we would expect the overall economic worries to continue to impact on property values.

I would like to finish by mentioning two items which should cheer shareholders. The REITs regime, effective from 1 April 2008, requires higher distributions of property earnings as a quid pro quo of tax exemption. The interim dividend is the first to benefit from the new regime so I am pleased to say that the interim dividend which is to be paid on 29 October will be 7p per share. Shareholders should note that the taxation treatment of this dividend is different as it is a property income distribution (PID) and also that we would not necessarily expect the final dividend to show the same increase. The second point is that we are very well placed to take advantage of an eventual recovery in the property market or of any distressed selling in the meantime. With a sound current portfolio, liquid assets in equities, significant ability to borrow, and REITs status the next two years might give the opportunity to lay the foundations for the next 10-15 years growth.

Yours sincerely

J Hewitt
Chairman

6 August 2008

Condensed
Consolidated Income Statement (unaudited) for the six months ended 30 June *2008*

	Note	Six months 2008 Revenue £'000	Six months 2008 Capital £'000	Six months 2008 **Total £'000**	Six months 2007 Revenue £'000	Six months 2007 Capital £'000	Six months 2007 **Total £'000**	Twelve months 2007 Revenue £'000	Twelve months 2007 Capital £'000	**2007 £'000**
Gross rental income		1,034	–	**1,034**	1,055	–	**1,055**	2,126	–	**2,126**
Property operating expenses		(102)	–	**(102)**	(46)	–	**(46)**	(99)	–	**(99)**
Net rental income		932	–	**932**	1,009	–	**1,009**	2,027	–	**2,027**
Realised gains on investment property		–	–	**–**	–	109	**109**	–	107	**107**
Realised losses on investment property		–	(5)	**(5)**	–	(6)	**(6)**	–	(6)	**(6)**
(Loss)/profit on disposal of investment property		–	(5)	**(5)**	–	103	**103**	–	101	**101**
Valuation gains on investment property		–	346	**346**	–	428	**428**	–	388	**388**
Valuation losses on investment property		–	(3,594)	**(3,594)**	–	(81)	**(81)**	–	(3,819)	**(3,819)**
Net valuation gains/(losses) on investment property		–	(3,248)	**(3,248)**	–	347	**347**	–	(3,431)	**(3,431)**
Dividend income		197	–	**197**	168	–	**168**	406	–	**406**
Gains on investments		–	161	**161**	–	869	**869**	–	1,592	**1,592**
Losses on investments		–	(1,814)	**(1,814)**	–	(575)	**(575)**	–	(1,290)	**(1,290)**
Net investment income		197	(1,653)	**(1,456)**	168	294	**462**	406	302	**708**
Administrative expenses		(212)	–	**(212)**	(136)	–	**(136)**	(391)	–	**(391)**
Operating profit/(loss) before net financing costs		917	(4,906)	**(3,989)**	1,041	744	**1,785**	2,042	(3,028)	**(986)**
Finance income		17	–	**17**	9	–	**9**	28	–	**28**
Finance expenses		(52)	–	**(52)**	(144)	–	**(144)**	(237)	–	**(237)**
Net financing costs		(35)	–	**(35)**	(135)	–	**(135)**	(209)	–	**(209)**
Profit/(loss) before tax		882	(4,906)	**(4,024)**	906	744	**1,650**	1,833	(3,028)	**(1,195)**
Income tax credit/(expense)	4	94	746	**840**	(216)	(59)	**(275)**	(271)	1,027	**756**
Profit/(loss) for the financial period		976	(4,160)	**(3,184)**	690	685	**1,375**	1,562	(2,001)	**(439)**
Earnings/(loss) per share	6	19.0p	(80.6)p	**(61.6)p**	13.3p	13.3p	**26.6p**	30.2p	(38.7)p	**(8.5)p**

Condensed
Consolidated Balance Sheet (unaudited) as at 30 June *2008*

	Note	**30 June 2008 £'000**	30 June 2007 £'000	31 December 2007 £'000
Assets				
Investment property	7	**32,021**	39,324	35,545
Equity investments	8	**8,857**	11,840	10,830
Total non-current assets		**40,878**	51,164	46,375
Current assets				
Trade and other receivables		**134**	407	326
Cash at bank and in hand		**917**	433	813
Total current assets		**1,051**	840	1,139
Total assets		**41,929**	52,004	47,514
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		**18**	178	18
Current corporation tax		**664**	405	426
Trade and other payables		**733**	879	743
Total current liabilities		**1,415**	1,462	1,187
Non-current liabilities				
Interest-bearing loans and borrowings	10	**1,304**	2,760	1,909
Deferred tax liabilities		**1,159**	3,997	2,705
Total non-current liabilities		**2,463**	6,757	4,614
Total liabilities		**3,878**	8,219	5,801
Net assets		**38,051**	43,785	41,713
Equity				
Issued share capital	9	**1,292**	1,292	1,292
Revaluation reserve – property	9	**4,529**	9,723	7,094
Revaluation reserve – other	9	**3,096**	4,635	4,203
Capital redemption reserve	9	**95**	95	95
Realised capital reserve	9	**17,707**	17,152	17,527
Retained earnings	9	**11,332**	10,888	11,502
Total equity		**38,051**	43,785	41,713

Condensed
Consolidated Statement of Cash Flows (unaudited) for the six months ended 30 June *2008*

		30 June 2008 £'000	30 June 2007 £'000	31 December 2007 £'000
Operating activities				
Profit for the period		**(3,184)**	1,375	(439)
Adjustments for:				
Net valuation losses/(gains) on investment property		**3,248**	(347)	3,431
Loss/(profit) on disposal of investment property		**5**	(103)	(101)
Net losses/(gains) on investments		**1,653**	(294)	(302)
Finance income		**(17)**	(9)	(28)
Finance expense		**52**	144	237
Income tax (credit)/expense		**(840)**	275	(756)
Operating cash flow before changes in working capital and provisions		**917**	1,041	2,042
Decrease in trade and other receivables		**192**	82	163
(Decrease)/increase in trade and other payables		**(10)**	40	(94)
Cash generated from operations		**1,099**	1,163	2,111
Finance income		**17**	9	28
Finance expense		**(52)**	(144)	(237)
Income tax paid		**(467)**	(282)	(521)
Cash flows from operating activities		**597**	746	1,381
Investing activities				
Purchase of fixed assets	– investment property	**–**	(6)	(6)
	– equity investments	**(63)**	(703)	(1,164)
Sale of fixed assets	– investment property	**271**	2,621	2,619
	– equity investments	**382**	952	2,429
Cash flows from investing activities		**590**	2,864	3,878
Financing activities				
New medium term loans		**–**	–	–
Loan repayments		**(605)**	(2,993)	(4,004)
Dividends paid		**(478)**	(465)	(723)
Cash flows from investing activities		**(1,083)**	(3,458)	(4,727)
Net increase in cash and cash equivalents		**104**	152	532
Cash and cash equivalents at 1 January 2008		**813**	281	281
Cash and cash equivalents at 30 June 2008		**917**	433	813

Notes (unaudited)

for the six months ended 30 June ***2008***

1. Interim report

The results for the six months ended 30 June 2008 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 2006 but should be read in conjunction with the most recent financial statements. Full accounts for 2007 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 2008 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 condensed consolidated interim financial information for the six months ended 30 June 2008 is 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 and methods of computation 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 ***2008***

3. Segmental reporting *(continued)*

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
Commercial property			
Gross income	**995**	1,026	2,062
(Loss)/profit for the period	**(2,818)**	610	(1,521)
Assets	**30,697**	37,576	34,088
Liabilities	**2,619**	5,697	3,429
Residential property			
Gross income	**39**	29	64
Profit for the period	**668**	348	257
Assets	**2,356**	2,475	2,553
Liabilities	**59**	592	656
Financial assets			
Gross income	**197**	168	406
(Loss)/profit for the period	**(1,034)**	417	825
Assets	**8,876**	11,953	10,873
Liabilities	**1,200**	1,930	1,716
Total			
Gross income	**1,231**	1,223	2,532
(Loss)/profit for the period	**(3,184)**	1,375	(439)
Assets	**41,929**	52,004	47,514
Liabilities	**3,878**	8,219	5,801

4. Taxation

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
Current tax:			
On revenue profits	**75**	216	341
On capital profits	**(26)**	12	37
Prior year overprovision	**–**	–	(31)
Deferred tax:			
On revenue profits	**(169)**	–	(39)
On capital profits	**(1,388)**	47	(1,064)
REIT conversion charge	**668**	–	–
	(840)	275	(756)

The taxation charge has been based on the estimated effective tax rate for the full year. However, on 1 April 2008, the group became a Real Estate Investment Trust and from that date the group does not pay corporation tax on its profits and gains from its commercial and residential property activities. For entry to that regime, the group will pay a conversion charge, estimated at £668,000, and a property income dividend to shareholders equal to at least 90% of the taxable profits from its commercial and residential property activities.

5. Dividends

On 6 August 2008, the directors declared a property income dividend of 7.00p per share (2007 5.00p interim dividend) payable on 29 October 2008 to shareholders registered at 3 October 2008.

The following dividends have been paid by the company.

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
9.00p per ordinary share (2007 8.30p)	**478**	465	465
2007 interim 5.00p per ordinary share	**–**	–	258
	478	465	723

Notes (unaudited)

for the six months ended 30 June ***2008***

6. Earnings per share

The calculation of earnings per share is based on the loss for the period of £3,184,000 (2007 £1,375,000 profit) and on 5,167,240 shares (2007 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2008 and throughout the period since 1 January 2007.

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 £976,000 (2007 £690,000) has been calculated.

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
Earnings:			
Basic earnings	**(3,184)**	1,375	(439)
Adjustments for:			
Net valuation gains on investment property	**3,253**	(450)	3,330
Gains and losses on investments	**1,653**	(294)	(302)
Income tax on gains and losses	**(746)**	59	(1,027)
Adjusted earnings	**976**	690	1,562
Per share amount:			
Basic earnings per share	**(61.6)p**	26.6p	(8.5)p
Adjustments for:			
Net valuation gains on investment property	**63.0p**	(8.7)p	64.4p
Gains and losses on investments	**32.0p**	(5.7)p	(5.8)p
Income tax on gains and losses	**(14.4)p**	1.1p	(19.9)p
Adjusted earnings per share	**19.0p**	13.3p	30.2p

7. Investment property

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
Valuation at 1 January 2008	**35,545**	41,487	41,487
Additions	**–**	6	6
Disposals	**(276)**	(2,516)	(2,517)
Deficit/surplus on revaluation	**(3,248)**	347	(3,431)
Valuation at 30 June 2008	**32,021**	39,091	35,545

The directors have used an external independent valuation of properties at 30 June 2008.

8. Equity investments

Listed and unlisted	**First Half 2008 £'000**	First Half 2007 £'000	Full Year 2007 £'000
Valuation at 1 January 2008	**10,830**	11,794	11,794
Additions	**63**	703	1,164
Disposals	**(470)**	(962)	(2,403)
Deficit/surplus on revaluation	**(1,566)**	305	275
Valuation at 30 June 2008	**8,857**	11,840	10,830

9. Total equity

a) First half 2008

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
At 1 January 2008	1,292	7,094	4,203	95	17,527	11,502	41,713
Total recognised gain and expense	–	–	–	–	–	(3,184)	(3,184)
Dividends to shareholders	–	–	–	–	–	(478)	(478)
Non-distributable items recognised in income statement:							
Revaluation gains	–	(3,248)	(1,566)	–	–	4,814	–
Tax on valuation gains and losses	–	955	433	–	–	(1,388)	–
Realised gains	–	–	–	–	(66)	66	–
Surplus attributable to assets sold	–	(272)	37	–	235	–	–
Tax on gains attributable to assets sold	–	–	(11)	–	11	–	–
At 30 June 2008	1,292	4,529	3,096	95	17,707	11,332	38,051

b) First half 2007

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
At 1 January 2007	1,292	10,169	4,601	95	16,055	10,663	42,875
Total recognised gain and expense	–	–	–	–	–	1,375	1,375
Dividends to shareholders	–	–	–	–	–	(465)	(465)
Non-distributable items recognised in income statement:							
Revaluation gains	–	347	305	–	–	(652)	–
Tax on valuation gains and losses	–	(22)	(25)	–	–	47	–
Realised gains	–	–	–	–	80	(80)	–
Surplus attributable to assets sold	–	(972)	(306)	–	1,278	–	–
Tax on gains attributable to assets sold	–	201	60	–	(261)	–	–
At 30 June 2007	1,292	9,723	4,635	95	17,152	10,888	43,785

9. Total equity *(continued)*

c) Full year 2007

		Revaluation reserves		Capital	Realised	Retained	
	Equity	Property	Other	Redemption	Capital	Earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	1,292	10,169	4,601	95	16,055	10,663	42,875
Total recognised gain and expense	–	–	–	–	–	(439)	(439)
Dividends to shareholders	–	–	–	–	–	(723)	(723)
Non-distributable items recognised in income statement:							
Revaluation gains	–	(3,431)	275	–	–	3,156	–
Tax on valuation gains and losses	–	861	203	–	–	(1,064)	–
Realised gains	–	–	–	–	91	(91)	–
Surplus attributable to assets sold	–	(822)	(962)	–	1,784	–	–
Tax on gains attributable to assets sold	–	317	86	–	(403)	–	–
At 31 December 2007	1,292	7,094	4,203	95	17,527	11,502	41,713

Notes (unaudited)

for the six months ended 30 June ***2008***

10. Interest-bearing loans and borrowings

	First Half 2008 £'000	First Half 2007 £'000	Full Year 2007 £'000
Medium term bank loan	**1,304**	2,760	1,909
The medium term bank loan comprises amounts falling due as follows:			
Between one and two years	**71**	202	37
Between two and five years	**238**	708	220
Over five years	**995**	1,850	1,652
	1,304	2,760	1,909

11. Related party transactions

Kingerlee Holdings Limited owns 25.3% (2007 25.3%) of the company's shares and D H 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 £1,000 (2007 Nil) and a service charge in relation to services at Thomas House, Kidlington of £7,000 (2007 £7,000). The amount owed at 30 June 2008 was nil (2007 Nil). All transactions were undertaken on an arm's length basis.