

HIGHCROFT INVESTMENTS PLC

Interim Report

30 June 2007

Chairman's

Statement for the six months ended 30 June 2007

Highlights

- Profit before taxation excluding capital activities, down by 10.6% to £906,000 (2006 £1,013,000)
- Profit before taxation including capital activities, down by 50.4% to £1,650,000 (2006 £3,329,000)
- Interim dividend increased by 6.4% to 5.00p per share from 4.70p in 2006.
- Net assets per share up to 847p (June 2006 800p and December 2006 830p).

Dear Shareholder

I am writing to you to introduce our Interim Report, for the half year to 30 June 2007, and to update you on converting to a Real Estate Investment Trust (REIT).

As far as the half year is concerned, we are pleased to report an increase in asset value per share to 847p (800p June 2006, 830p December 2006). This is a result of retained profits and rises in both our investment and property portfolios.

The Consolidated Income Statement shows a decline in profit before taxation including capital activities to £1,650,000 from £3,329,000 in the first half of 2006. The principal item affecting this reduction is the net valuation gains on investment property which were £2,016,000 in 2006 and £347,000 in 2007. Realised profit of disposal of investment property fell from £236,000 in 2006 to £103,000 in 2007. In contrast, net valuation gains and profit on disposal of investments increased from £64,000 in 2006 to £294,000 in 2007.

Profit before taxation excluding capital activities reduced from £1,013,000 in 2006 to £906,000 in the first half of 2007 – principally as a result of the absence of special dividends/cash distributions from our equity portfolio and higher financing costs. We believe that property and equity purchases made now (when income might not cover short term interest charges) will enhance the asset base of the company in the medium term.

Despite a decline in profit for the period, we are paying an interim dividend of 5.00p – an increase of 6.4%.

Shareholders will be aware of the debate about property values in view of rising interest rates. If the market as a whole continues to weaken in the coming months, our own portfolio will be affected. However, we believe that our portfolio of property is strong as it is designed for the medium term with quality properties, in good locations, a spread of rent reviews/renewals and good covenants.

Following the AGM discussion and announcement about REITs, I am pleased to say that the programme for conversion is progressing well. The two principal issues with which we are dealing are, first, the fact we have a substantial shareholder and, second, that we will be required to manage our property and equity assets so that property assets are always three times the value of equity assets. We expect to be writing to shareholders in November regarding an EGM to be held in mid-December. If the motion to amend our Articles of Association were carried, conversion would be effective on 1 January 2008.

Yours sincerely

J Hewitt
Chairman

8 August 2007

Condensed

Consolidated Income Statement (unaudited) for the six months ended 30 June 2007

	Note	First Half 2007			First Half 2006			Full Year 2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	2006 £'000
Gross rental income		1,055	-	1,055	1,041	-	1,041	2,038	-	2,038
Property operating expenses		(46)	-	(46)	(49)	-	(49)	(136)	-	(136)
Net rental income		1,009	-	1,009	992	-	992	1,902	-	1,902
Realised gains on investment property		-	109	109	-	243	243	-	320	320
Realised losses on investment property		-	(6)	(6)	-	(7)	(7)	-	(33)	(33)
Profit on disposal of investment property		-	103	103	-	236	236	-	287	287
Valuation gains on investment property		-	428	428	-	2,230	2,230	-	2,732	2,732
Valuation losses on investment property		-	(81)	(81)	-	(214)	(214)	-	(398)	(398)
Net valuation gains on investment property		-	347	347	-	2,016	2,016	-	2,334	2,334
Dividend income		168	-	168	237	-	237	489	-	489
Gains on investments		-	869	869	-	352	352	-	1,455	1,455
Losses on investments		-	(575)	(575)	-	(288)	(288)	-	(309)	(309)
Net investment income		168	294	462	237	64	301	489	1,146	1,635
Administrative expenses		(136)	-	(136)	(141)	-	(141)	(247)	-	(247)
Operating profit before net financing costs		1,041	744	1,785	1,088	2,316	3,404	2,144	3,767	5,911
Finance income		9	-	9	5	-	5	13	-	13
Finance expenses		(144)	-	(144)	(80)	-	(80)	(201)	-	(201)
Net financing costs		(135)	-	(135)	(75)	-	(75)	(188)	-	(188)
Profit before tax		906	744	1,650	1,013	2,316	3,329	1,956	3,767	5,723
Income tax expense	4	(216)	(59)	(275)	(238)	(484)	(722)	(456)	(884)	(1,340)
Profit for the financial period		690	685	1,375	775	1,832	2,607	1,500	2,883	4,383
Earnings per share	6	13.3p	13.3p	26.6p	15.1p	35.4p	50.5p	29.0p	55.8p	84.8p

Condensed

Highcroft Investments PLC

Consolidated Balance Sheet (unaudited) as at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Assets				
Investment property	7	39,324	37,818	41,487
Equity investments	8	11,840	10,645	11,794
Total non-current assets		51,164	48,463	53,281
Current assets				
Trade and other receivables		407	578	489
Cash at bank and in hand		433	157	281
Total current assets		840	735	770
Total assets		52,004	49,198	54,051
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		178	137	246
Current corporation tax		405	422	196
Trade and other payables		879	711	838
Total current liabilities		1,462	1,270	1,280
Non-current liabilities				
Interest-bearing loans and borrowings	10	2,760	2,917	5,685
Deferred tax liabilities		3,997	3,669	4,211
Total non-current liabilities		6,757	6,586	9,896
Total liabilities		8,219	7,856	11,176
Net assets		43,785	41,342	42,875
Equity				
Issued share capital	9	1,292	1,292	1,292
Revaluation reserve – property	9	9,723	10,016	10,169
Revaluation reserve – other	9	4,635	3,865	4,601
Capital redemption reserve	9	95	95	95
Realised capital reserve	9	17,152	15,892	16,055
Retained earnings	9	10,888	10,182	10,663
Total equity		43,785	41,342	42,875

Condensed

Consolidated Statement of Cash Flows (unaudited) for the six months ended 30 June 2007

	30 June 2007 £'000	30 June 2006 £'000	31 December 2006 £'000
Operating activities			
Profit for the period	1,375	2,607	4,383
Adjustments for:			
Net valuation gains on investment property	(347)	(2,016)	(2,334)
Profit on disposal of investment property	(103)	(236)	(287)
Net gains on investments	(294)	(64)	(1,146)
Finance income	(9)	(5)	(13)
Finance expense	144	80	201
Income tax expense	275	722	1,340
Operating profit before changes in working capital and provisions	1,041	1,088	2,144
Decrease/(increase) in trade and other receivables	82	(277)	(188)
Increase/(decrease) in trade and other payables	40	(14)	113
Cash generated from operations	1,163	797	2,069
Finance income	9	5	13
Finance expense	(144)	(80)	(201)
Income tax paid	(282)	(350)	(650)
Cash flows from operating activities	746	372	1,231
Investing activities			
Purchase of fixed assets – investment property	(6)	(3,054)	(7,437)
– equity investments	(703)	(616)	(1,029)
Sale of fixed assets – investment property	2,621	950	2,032
– equity investments	952	655	1,000
Cash flows from investing activities	2,864	(2,065)	(5,434)
Financing activities			
New medium term loans	–	1,602	4,470
Loan repayments	(2,993)	(48)	(39)
Dividends paid	(465)	(429)	(672)
Cash flows from investing activities	(3,458)	1,125	3,759
Net increase in cash and cash equivalents	152	(568)	(444)
Cash and cash equivalents at 1 January 2007	281	725	725
Cash and cash equivalents at 30 June 2007	433	157	281

for the six months ended 30 June 2007

1. Interim report

The results for the six months ended 30 June 2007 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 2006 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 2007 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 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 2007

3. Segmental reporting (continued)

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Commercial property			
Gross income	1,026	967	1,933
Profit for the period	610	1,824	2,288
Assets	37,576	35,825	39,312
Liabilities	5,697	5,559	8,559
Residential property			
Gross income	29	74	105
Profit for the period	348	507	813
Assets	2,475	2,630	2,874
Liabilities	592	643	736
Financial assets			
Gross income	168	237	489
Profit for the period	417	276	1,282
Assets	11,953	10,743	11,865
Liabilities	1,930	1,654	1,881
Total			
Gross income	1,223	1,278	2,527
Profit for the period	1,375	2,607	4,383
Assets	52,004	49,198	54,051
Liabilities	8,219	7,856	11,176

4. Taxation

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Current tax:			
On revenue profits	216	238	363
On capital profits	12	60	83
Prior year overprovision	–	–	(11)
Deferred tax	47	424	905
	<u>275</u>	<u>722</u>	<u>1,340</u>

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

5. Dividends

On 8 August 2007, the directors declared an ordinary interim dividend of 5.00p per share (2006 4.70p) payable on 31 October 2007 to shareholders registered at 5 October 2007.

The following dividends have been paid by the company.

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
9.00p per ordinary share (2006 8.30p)	465	429	429
2006 interim 4.70p per ordinary share	–	–	243
	<u>465</u>	<u>429</u>	<u>672</u>

Notes (unaudited)

for the six months ended 30 June 2007

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £1,375,000 (2006 £2,607,000) and on 5,167,240 shares (2006 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2007 and throughout the period since 1 January 2006.

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 £690,000 (2006 £775,000) has been calculated.

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Earnings:			
Basic earnings	1,375	2,607	4,383
Adjustments for:			
Net valuation gains on investment property	(450)	(2,252)	(2,621)
Gains and losses on investments	(294)	(64)	(1,146)
Income tax on gains and losses	59	484	884
Adjusted earnings	690	775	1,500
Per share amount:			
Basic earnings per share	26.6p	50.5p	84.8p
Adjustments for:			
Net valuation gains on investment property	(8.7)p	(43.6)p	(50.7)p
Gains and losses on investments	(5.7)p	(1.2)p	(22.2)p
Income tax on gains and losses	1.1p	9.4p	17.1p
Adjusted earnings per share	13.3p	15.1p	29.0p

7. Investment property

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Valuation at 1 January 2007	41,487	33,461	33,461
Additions	6	3,054	7,437
Disposals	(2,516)	(713)	(1,745)
Surplus on revaluation	347	2,016	2,334
Valuation at 30 June 2007	<u>39,324</u>	<u>37,818</u>	<u>41,487</u>

The directors have used an external independent valuation of properties at 30 June 2007.

8. Equity investments

Listed and unlisted	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Valuation at 1 January 2007	11,794	10,620	10,620
Additions	703	614	1,029
Disposals	(962)	(740)	(1,087)
Surplus on revaluation	305	151	1,232
Valuation at 30 June 2007	<u>11,840</u>	<u>10,645</u>	<u>11,794</u>

Notes (unaudited)

for the six months ended 30 June 2007

9. Total equity

a) 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	<u>1,292</u>	<u>9,723</u>	<u>4,635</u>	<u>95</u>	<u>17,152</u>	<u>10,888</u>	<u>43,785</u>

b) 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>

9. Total equity *(continued)*

c) Full year 2006

	Equity £'000	Revaluation reserves		Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2006	1,292	8,734	3,902	95	15,306	9,835	39,164
Total recognised gain and expense	-	-	-	-	-	4,383	4,383
Dividends to shareholders	-	-	-	-	-	(672)	(672)
Non-distributable items recognised in income statement:							
Revaluation gains	-	2,334	1,232	-	-	(3,566)	-
Tax on valuation gains and losses	-	(498)	(303)	-	-	801	-
Realised gains	-	-	-	-	118	(118)	-
Surplus attributable to assets sold	-	(512)	(276)	-	788	-	-
Tax on gains attributable to assets sold	-	111	46	-	(157)	-	-
At 31 December 2006	<u>1,292</u>	<u>10,169</u>	<u>4,601</u>	<u>95</u>	<u>16,055</u>	<u>10,663</u>	<u>42,875</u>

Notes (unaudited)

for the six months ended 30 June 2007

10. Interest-bearing loans and borrowings

	First Half 2007 £'000	First Half 2006 £'000	Full Year 2006 £'000
Medium term bank loan	2,760	2,917	5,685

The medium term bank loan comprises amounts falling due as follows:

Between one and two years	202	71	288
Between two and five years	708	238	1,002
Over five years	1,850	2,608	4,395
	2,760	2,917	5,685

11. Related party transactions

Kingerlee Holdings Limited owns 25.3% (2006 24.5%) 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 which were nil in 2007 (2006 £3,000) and a service charge in relation to services at Thomas House, Kidlington of £7,000 (2006 £7,000). The amount owed at 30 June 2007 was nil (2006 Nil). All transactions were undertaken on an arm's length basis.