

HIGHCROFT INVESTMENTS PLC

Interim Report

30 June 2009

Chairman's

Statement for the six months ended 30 June 2009

Highlights

- Profit after taxation excluding capital activities is down by 12.4% to £855,000 (2008 £976,000).
- Loss after taxation including capital activities is £457,000 (2008 £3,184,000).
- Interim property income distribution will be 10.00p per share compared with 7.00p in 2008.
- Net assets per share down to 591p (June 2008 736p and December 2008 612p).

Dear Shareholder

The difficulties of the property market and volatility of equity markets have continued into 2009, albeit with a lessening intensity. While there are some signs of optimism in certain quarters, and an element of stability returning, we continue to take a cautious view for the remainder of 2009 and into 2010.

We have not been immune to the consequences of these difficulties, nor do we expect much to change in the short term. However, we have not seen any significant new voids during the first half (the only new void being in the small retail unit in Warrington) and no new payment difficulties for tenants. On the other hand, we have had some mildly positive news in achieving a letting of the Warrington public house unit, subject to licensing, a lease renewal in Cirencester at an increased rent, new leases at both residential units in Cirencester and a modest degree of interest in the Yeovil retail unit which may yet lead to a letting. Investment income was generally at a lower level in 2009 than in 2008 but particularly affected by the lack of income from most of our holdings in banks.

The profit after taxation excluding capital activities is down by 12.4% to £855,000 from £976,000 affected by the costs of the two voids and the reduced investment income.

The loss after taxation including capital activities has reduced by 85.6% to £457,000 from £3,184,000 as the valuation losses on investment property and, more markedly, on equities are much less than at the half year stage of 2008.

The net asset value per share has fallen to 591p from 612p at December 2008 and from 736p at June 2008. It remains the case that with a defensive portfolio, no significant gearing and the beneficial tax regime of a REIT, shareholders have been protected from greater declines and we have performed reasonably.

I am happy to report that on 21 October there will be an interim property income distribution of 10p per share which is an increase of 42.9% over 2008 when we paid 7p per share.

Yours sincerely

J Hewitt
Chairman

26 August 2009

Condensed

Consolidated interim statement of comprehensive income (Unaudited) for the six months ended 30 June 2009

	Note	First Half 2009			First Half 2008			Full Year 2008		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Continuing operations										
Gross rental income		983	–	983	1,034	–	1,034	2,124	–	2,124
Property operating expenses		(112)	–	(112)	(102)	–	(102)	(300)	–	(300)
Net rental income		871	–	871	932	–	932	1,824	–	1,824
Realised gains on investment property		–	–	–	–	–	–	–	–	–
Realised losses on investment property		–	–	–	–	(5)	(5)	–	(5)	(5)
Net loss on disposal of investment property		–	–	–	–	(5)	(5)	–	(5)	(5)
Valuation gains on investment property		–	293	293	–	346	346	–	59	59
Valuation losses on investment property		–	(1,460)	(1,460)	–	(3,594)	(3,594)	–	(8,985)	(8,985)
Net valuation losses on investment property		–	(1,167)	(1,167)	–	(3,248)	(3,248)	–	(8,926)	(8,926)
Dividend income		142	–	142	197	–	197	450	–	450
Gains on investments		–	494	494	–	161	161	–	95	95
Losses on investments		–	(671)	(671)	–	(1,814)	(1,814)	–	(3,535)	(3,535)
Net investment income/(loss)		142	(177)	(35)	197	(1,653)	(1,456)	450	(3,440)	(2,990)
Administrative expenses		(148)	–	(148)	(212)	–	(212)	(324)	–	(324)
Operating profit/(loss) before net financing costs		865	(1,344)	(479)	917	(4,906)	(3,989)	1,950	(12,371)	(10,421)
Finance income		2	–	2	17	–	17	27	–	27
Finance expenses		(12)	–	(12)	(52)	–	(52)	(88)	–	(88)
Net finance costs		(10)	–	(10)	(35)	–	(35)	(61)	–	(61)
(Loss)/profit before tax		855	(1,344)	(489)	882	(4,906)	(4,024)	1,889	(12,371)	(10,482)
Income tax expense	4	–	32	32	94	746	840	33	1,180	1,213
Total profit/(loss) and comprehensive income/(expense) for the financial period		855	(1,312)	(457)	976	(4,160)	(3,184)	1,922	(11,191)	(9,269)
Basic and diluted earnings/(loss) per share	6	16.6p	(25.4)p	(8.8)p	19.0p	(80.6)p	(61.6)p	37.3p	(216.6)p	(179.3)p

Condensed

Highcroft Investments PLC

Consolidated Interim Statement of Financial Position (Unaudited) as at 30 June 2009

	Note	30 June 2009 £'000	30 June 2008 £'000	31 December 2008 £'000
Assets				
Investment property	7	25,458	32,021	26,344
Equity investments	8	6,530	8,857	7,282
Total non-current assets		31,988	40,878	33,626
Current assets				
Trade and other receivables		97	134	223
Cash at bank and in hand		573	917	963
Total current assets		670	1,051	1,186
Total assets		32,658	41,929	34,812
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		14	18	14
Current corporation tax		100	664	440
Trade and other payables		792	733	826
Total current liabilities		906	1,415	1,280
Non-current liabilities				
Interest-bearing loans and borrowings		637	1,304	1,240
Deferred tax liabilities	9	557	1,159	688
Total non-current liabilities		1,194	2,463	1,928
Total liabilities		2,100	3,878	3,208
Net assets		30,558	38,051	31,604
Equity				
Issued share capital		1,292	1,292	1,292
Revaluation reserve – property		4,277	4,529	4,080
Revaluation reserve – other		1,740	3,096	2,137
Capital redemption reserve		95	95	95
Realised capital reserve		18,174	17,707	17,773
Retained earnings		4,980	11,332	6,227
Total equity		30,558	38,051	31,604

Condensed

Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2009

a) First half 2009

	Equity £'000	Revaluation reserves		Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2009	1,292	4,080	2,137	95	17,773	6,227	31,604
Transactions with owners: dividends	-	-	-	-	-	(589)	(589)
Total comprehensive loss for the period	-	-	-	-	-	(457)	(457)
Identification of non-distributable items recognised in income statement:							
Revaluation losses	-	(1,167)	(254)	-	-	1,421	-
Tax on valuation gains and losses	-	-	51	-	-	(51)	-
Realised gains	-	-	-	-	59	(59)	-
Surplus attributable to assets sold	-	-	(342)	-	342	-	-
Excess of cost over revalued amount	-	1,364	148	-	-	(1,512)	-
At 30 June 2009	<u>1,292</u>	<u>4,277</u>	<u>1,740</u>	<u>95</u>	<u>18,174</u>	<u>4,980</u>	<u>30,558</u>

b) First half 2008

	Equity £'000	Revaluation reserves		Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2008	1,292	7,094	4,203	95	17,527	11,502	41,713
Transactions with owners: dividends	-	-	-	-	-	(478)	(478)
Total comprehensive loss for the period	-	-	-	-	-	(3,184)	(3,184)
Identification of non-distributable items recognised in income statement:							
Revaluation losses	-	(3,248)	(1,566)	-	-	4,814	-
Tax on valuation gains and losses	-	955	433	-	-	(1,388)	-
Realised gains	-	-	-	-	(66)	66	-
(Surplus)/deficit attributable to assets sold	-	(272)	37	-	235	-	-
Tax on gains attributable to assets sold	-	-	(11)	-	11	-	-
At 30 June 2008	<u>1,292</u>	<u>4,529</u>	<u>3,096</u>	<u>95</u>	<u>17,707</u>	<u>11,332</u>	<u>38,051</u>

Consolidated Interim Statement of Changes in Equity (continued) for the six months ended 30 June **2009**

c) Full year 2008

	Equity £'000	Revaluation reserves		Capital Redemption £'000	Realised Capital £'000	Retained Earnings £'000	Total £'000
	£'000	Property £'000	Other £'000	£'000	£'000	£'000	£'000
At 1 January 2008	1,292	7,094	4,203	95	17,527	11,502	41,713
Transactions with owners: dividends	-	-	-	-	-	(840)	(840)
Total comprehensive loss for the period	-	-	-	-	-	(9,269)	(9,269)
Identification of non-distributable items recognised in income statement:							
Revaluation losses	-	(8,926)	(2,999)	-	-	11,925	-
Tax on valuation gains and losses	-	955	893	-	-	(1,848)	-
Realised losses	-	-	-	-	(446)	446	-
Surplus attributable to assets sold	-	(272)	(420)	-	692	-	-
Excess of cost over revalued amount	-	5,229	460	-	-	(5,689)	-
	<u>1,292</u>	<u>4,080</u>	<u>2,137</u>	<u>95</u>	<u>17,773</u>	<u>6,227</u>	<u>31,604</u>
At 31 December 2008	<u>1,292</u>	<u>4,080</u>	<u>2,137</u>	<u>95</u>	<u>17,773</u>	<u>6,227</u>	<u>31,604</u>

Condensed

Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2009

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Operating activities			
Loss for the period	(457)	(3,184)	(9,269)
Adjustments for:			
Net valuation losses on investment property	1,167	3,248	8,926
Loss on disposal of investment property	-	5	5
Net losses on investments	177	1,653	3,440
Finance income	(2)	(17)	(27)
Finance expense	12	52	88
Income tax credit	(32)	(840)	(1,213)
Operating profit before changes in working capital and provisions	865	917	1,950
Decrease in trade and other receivables	126	192	103
(Decrease)/increase in trade and other payables	(34)	(10)	83
Cash generated from operations	957	1,099	2,136
Finance income	2	17	27
Finance expense	(12)	(52)	(88)
Income tax paid	(440)	(467)	(794)
Cash flows from operating activities	507	597	1,281
Investing activities			
Purchase of fixed assets – investment property	(281)	-	-
– equity investments	(161)	(63)	(750)
Sale of fixed assets – investment property	-	271	271
– equity investments	737	382	857
Cash flows from investing activities	295	590	378
Financing activities			
New medium term loans	-	-	-
Loan repayments	(603)	(605)	(669)
Dividends paid	(589)	(478)	(840)
Cash flows from investing activities	(1,192)	(1,083)	(1,509)
Net increase in cash and cash equivalents	(390)	104	150
Cash and cash equivalents at 1 January 2009	963	813	813
Cash and cash equivalents at 30 June 2009	573	917	963

for the six months ended 30 June 2009

1. Nature of operations and general information

The principal activities of Highcroft Investments PLC ('Highcroft') and its subsidiary (together 'the group') 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 2009. The financial information for the year ended 31 December 2008 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 2008 have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985.

2. Basis of preparation

These condensed consolidated interim financial statements are for the six months ended 30 June 2009. They have been prepared in accordance with IAS34, 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 2008.

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 2008 except for the adoption of IAS1 Presentation of Financial Statements (Revised 2007) and IFRS8 Operating Segments.

The adoption of IAS1 (Revised 2007) does not affect the financial position or profits of the group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. IAS1 (Revised 2007) affects the presentation of changes in equity and introduces a statement of changes in equity, which was previously presented as a note to the financial statements.

Under IFRS8 the accounting policy for identifying segments is required to be based on the internal management reporting information that is regularly reviewed by the directors. As this basis has always been used by Highcroft, there is no change.

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

Segmental information is presented in the condensed consolidated 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. All gross income is from external tenants or external investments.

The group is composed 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 2009

3. Segmental reporting (continued)

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Commercial property			
Gross income	950	995	2,050
Loss for the period	(491)	(2,818)	(7,494)
Assets	24,038	30,697	25,478
Liabilities	1,238	2,619	2,322
Residential property			
Gross income	33	39	74
Profit for the period	54	668	373
Assets	2,077	2,356	2,048
Liabilities	11	59	66
Financial assets			
Gross income	142	197	450
Loss for the period	(20)	(1,034)	(2,148)
Assets	6,543	8,876	7,286
Liabilities	851	1,200	820
Total			
Gross income	1,125	1,231	2,574
Loss for the period	(457)	(3,184)	(9,269)
Assets	32,658	41,929	34,812
Liabilities	2,100	3,878	3,208

Notes (unaudited)

Highcroft Investments PLC

for the six months ended 30 June 2009

4. Taxation

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Current tax:			
On revenue profits	–	75	102
On capital profits	19	(26)	–
REIT conversion charge	–	668	668
Prior year overprovision	–	–	34
	<u>19</u>	<u>717</u>	<u>804</u>
Deferred tax	<u>(51)</u>	<u>(1,557)</u>	<u>(2,017)</u>
	<u><u>(32)</u></u>	<u><u>(840)</u></u>	<u><u>(1,213)</u></u>

The taxation charge has been based on the estimated effective tax rate for the full year. 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 paid a conversion charge of at £668,000. This liability has not yet been finally agreed with HMRC.

5. Dividends

On 26 August 2009, the directors declared a property income dividend of 10.00p per share (2008 7.00p interim dividend) payable on 21 October 2009 to shareholders registered at 25 September 2009.

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

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
11.40p per ordinary share (2008 8.30p dividend)	589	478	478
2008 interim 7.00p per ordinary share	–	–	362
	<u>589</u>	<u>478</u>	<u>840</u>

Notes (unaudited)

for the six months ended 30 June 2009

6. Earnings per share

The calculation of earnings per share is based on the loss for the period of £457,000 (2008 £3,184,000) and on 5,167,240 shares (2008 5,167,240) which is the weighted average number of shares in issue during the period ended 30 June 2009 and throughout the period since 1 January 2008.

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 £855,000 (2008 £976,000) has been calculated.

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Earnings:			
Basic earnings	(457)	(3,184)	(9,269)
Adjustments for:			
Net valuation losses on investment property	1,167	3,253	8,931
Gains and losses on investments	177	1,653	3,440
Income tax on gains and losses	(32)	(746)	(1,180)
Adjusted earnings	855	976	1,922
Per share amount:			
Basic earnings per share	(8.8)p	(61.6)p	(179.3)p
Adjustments for:			
Net valuation gains on investment property	22.6p	63.0p	172.8p
Gains and losses on investments	3.4p	32.0p	66.6p
Income tax on gains and losses	(0.6)p	(14.4)p	(22.8)p
Adjusted earnings per share	16.6p	19.0p	37.3p

Notes (unaudited)

Highcroft Investments PLC

for the six months ended 30 June 2009

7. Investment property

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Valuation at 1 January 2009	26,344	35,545	35,545
Additions	281	-	-
Disposals	-	(275)	(275)
Loss on revaluation	(1,167)	(3,249)	(8,926)
Valuation at 30 June 2009	<u>25,458</u>	<u>32,021</u>	<u>26,344</u>

The directors have used an external independent valuation of properties at 30 June 2009 which has been carried out consistently with the annual valuation.

8. Equity investments

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Valuation at 1 January 2009	7,282	10,830	10,830
Additions	161	63	750
Disposals	(659)	(470)	(1,299)
Loss on revaluation	(254)	(1,566)	(2,999)
Valuation at 30 June 2009	<u>6,530</u>	<u>8,857</u>	<u>7,282</u>

Notes (unaudited)

for the six months ended 30 June 2009

9. Interest-bearing loans and borrowings

	First Half 2009 £'000	First Half 2008 £'000	Full Year 2008 £'000
Medium term bank loan	<u>637</u>	<u>1,304</u>	<u>1,240</u>
The medium term bank loan comprises amounts falling due as follows:			
Between one and two years	71	71	28
Between two and five years	<u>238</u>	<u>238</u>	<u>165</u>
Over five years	<u>328</u>	<u>995</u>	<u>1,047</u>
	<u><u>637</u></u>	<u><u>1,304</u></u>	<u><u>1,240</u></u>

10. Related party transactions

Kingerlee Holdings Limited owns 25.4% (2008 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 a service charge in relation to services at Thomas House, Kidlington of £7,000 (2008 £7,000). The amount owed at 30 June 2009 was nil (2008 Nil). All transactions were undertaken on an arm's length basis.

