

3 September 2020

Highcroft Investments PLC
Interim Report for the six months ended 30 June 2020

Key Highlights:

- *Gross rental income increased 11.74% to £3,044,000 (2019 £2,726,000)
- *Net rental income increased 3.7% to £2,777,000 (2019 £2,678,000)
- *99% occupancy in the property portfolio (2019 100%)
- *100% of Q1 rent, 77% of Q2 rent and 81% of Q3 rent, due to date, collected
- *Adjusted earnings per share reduced 3.5% to 35.9p (2019 37.2p)
- *Total earnings per share reduced to 51.4p loss (2019 21.9p profit)
- *Net investment into property £nil (2019 net investment £11,897,000)
- *Property valuation decreased by 5.2% to £82,195,000 (December 2019 £86,710,000)
- *Net assets per share decreased 6.8% to 1095p (December 2019 1175p, June 2019 1195p)
- *Loan to value 31.9% (December 2019 30.2%, June 2019 29.5%)

Dear Shareholder

I am writing to report our half year 2020 results. It has been an extremely difficult period which has been unduly impacted by the COVID-19 pandemic. Whilst the business has demonstrated resilience under the circumstances in the 6 months to 30 June 2020, the Board is mindful that there remains a significant amount of risk and uncertainty surrounding the outlook for the remainder of the financial year. Taking all of this into account, and given our focus on active asset management, I feel we have performed well in the first half and, having collected 100% of our Q1 rent, we collected a respectable 77% of Q2 rent and 81% of Q3 rent (due to date) so far. We continue to have a conservative view on debt which stood at 31.9% loan to value at the half year with cash on the balance sheet of £1.8m. In addition, all bank loans due for repayment in 2020 have been refinanced with no further debt maturing until 2022, and we have agreed to draw an additional £1m of our agreed facility later this year as additional working capital.

The group has not made any new property acquisitions during the period although gross rent has increased by 11.4% as a result of our 2019 acquisitions and rent reviews carried out in the last 12 months. As a result of the COVID-19 pandemic, we have provided for £195,000 of bad debts primarily arising from the effect of a small number of CVAs and new lease arrangements. Our external independent property valuation fell by 5.2% during the period with some softening pre COVID which was then further accelerated by the onset of the pandemic. This compares favourably to the All Property index decrease of 6.1% in the same period.

More specifically, our high street retail and leisure asset values, which represent only 20.4% of our overall portfolio, have fallen by 10.9% and 8.5% respectively; however, in-line with our strategy to diversify our exposure and buy quality assets, our office and industrial properties have held up better with both falling by just 2.7%.

Dividend

Whilst the business has performed robustly during the first half of 2020 against a difficult backdrop, we remain mindful of the increased risk brought about by the COVID-19 pandemic and the potential knock-on effect to our tenants. Highcroft has been a public company for several decades and has always prided itself on paying an increased dividend each year. The group is, however, operating in very unusual and unpredictable times and is, as a result, taking a cautious approach to working capital management to ensure that it is able to continue to deliver long term shareholder value post COVID-19. We have therefore decided to defer our decision in relation to the interim dividend until October when we will have the initial indications of our Q4 rent collection and more information as to the anticipated impact of the pandemic during the remainder of this financial year and in to 2021.

Outlook

The group has always taken a prudent approach to its operating model to ensure long term value creation for all stakeholders. I would like to thank my colleagues and our business partners for their pro-active approach which has resulted in a robust performance in the period and we continue to monitor the evolving situation closely. The outlook for the group is likely to be overshadowed by the effects of COVID-19 for some time; however, we continue to work closely with our tenants and all other stakeholders to ensure we protect occupancy levels and limit the short-term impact.

We have a well-balanced portfolio with low gearing, a healthy positive cash position, and strong balance sheet which should position us well to withstand a potentially protracted period of economic weakness.

Charles Butler
Chairman
2 September 2020

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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Condensed consolidated interim statement of comprehensive income (unaudited)

for the six months ended 30 June 2020

		Unaudited			Unaudited			Audited		
		First half 2020			First half 2019			Full year 2019		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Continuing operations										
Gross rental income		3,044	-	3,044	2,726	-	2,726	5,840	-	5,840
Bad debt provision		(195)	-	(195)	-	-	-	-	-	-
Property operating expenses		(72)	-	(72)	(48)	-	(48)	(184)	-	(184)
Net rental income		2,777	-	2,777	2,678	-	2,678	5,656	-	5,656
Valuation gains on investment property		-	600	600	-	-	-	-	739	739
Valuation losses on investment property		-	(5,115)	(5,115)	-	(792)	(792)	-	(3,627)	(3,627)
Net valuation (losses)/gains on investment property		-	(4,515)	(4,515)	-	(792)	(792)	-	(2,888)	(2,888)

		Unaudited			Unaudited			Audited		
		First half 2020			First half 2019			Full year 2019		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Dividend income		-	-	-	3	-	3	3	-	3
Gains on investments		-	-	-	53	-	53	-	53	53
Losses on investments		-	-	-	-	-	-	-	-	-
Net investment income		-	-	-	56	-	56	3	53	56
Administrative expenses		(471)	-	(471)	(411)	-	(411)	(826)	-	(826)
Operating profit before net financing costs		2,306	(4,515)	(2,209)	2,323	(792)	1,531	4,833	(2,835)	1,998
Finance income		2	-	2	5	-	5	6	-	6
Finance expenses		(458)	-	(458)	(396)	-	(396)	(856)	-	(856)
Net finance costs		(456)	-	(456)	(391)	-	(391)	(850)	-	(850)
Profit before tax		1,850	(4,515)	(2,665)	1,932	(792)	1,140	3,983	(2,835)	1,148
Income tax (charge)/credit	4	8	-	8	(11)	-	(11)	72	(66)	6
Total profit and comprehensive income for the financial period		1,858	(4,515)	(2,657)	1,921	(792)	1,129	4,055	(2,901)	1,154
Basic and diluted earnings per share	6			(51.4p)			21.9p			22.3p

Condensed consolidated interim statement of financial position (unaudited)

as at 30 June 2020

	Note	Unaudited 30 June 2020 £'000	Unaudited 30 June 2019 £'000	Audited 31 December 2019 £'000
Assets				
Investment property	7	82,195	88,805	86,710
Equity investments	8	-	9	-
Total non-current assets		82,195	88,814	86,710
Current assets				
Trade and other receivables		1,526	668	1,147
Cash at bank and in hand		1,779	610	1,559
Total current assets		3,305	1,278	2,706
Total assets		85,500	90,092	89,416
Liabilities				
Current liabilities				
Interest bearing loan		4,000	-	4,000
Trade and other payables		2,626	2,123	2,495
Total current liabilities		6,626	2,123	6,495
Non-current liabilities				
Interest-bearing loans and borrowings	9	22,200	26,200	22,200
Total non-current liabilities		22,200	26,200	22,200
Total liabilities		28,826	28,323	28,695
Net assets		56,674	61,769	60,721
Equity				
Issued share capital		1,294	1,292	1,292
Share premium		51	-	-
Share based payment		19	-	12
Other equity reserve		(53)	-	-
Revaluation reserve - property		9,514	17,456	12,931
Revaluation reserve - other		0	5	-
Capital redemption reserve		95	95	95
Realised capital reserve		28,995	28,990	28,995
Retained earnings		16,759	13,931	17,396
Total equity		56,674	61,769	60,721

Condensed consolidated interim statement of changes in equity

for the six months ended 30 June 2020

	Issued share capital (note 10)	Share premium	Share based payment	Other equity reserve	Revaluation reserve property	Capital redemption	Realised Capital	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2020	1,292	-	12	-	12,931	95	28,995	17,396	60,721
Transactions with owners:									
Dividends	-	-	-	-	-	-	-	(1,397)	(1,397)
Issue of shares	2	51	-	(53)	-	-	-	-	-
	2	51	-	(53)	-	-	-	(1,397)	(1,397)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation losses	-	-	-	-	(4,515)	-	-	4,515	-
Realised gains	-	-	-	-	-	-	-	-	-
Excess of cost over revalued amount taken to retained earnings	-	-	-	-	1,098	-	-	(1,098)	-
	-	-	-	-	(3,417)	-	-	3,417	-
Share award expensed	-	-	7	-	-	-	-	-	7
Loss and total comprehensive income for the period	-	-	-	-	-	-	-	(2,657)	(2,657)
At 30 June 2020	1,294	51	19	(53)	9,514	95	28,995	16,759	56,674

First half 2019 Unaudited	Issued share capital £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
		Property £'000	Other £'000				
At 1 January 2019	1,292	18,770	574	95	28,378	13,275	62,384
Transactions with owners:							
Dividends	-	-	-	-	-	(1,744)	(1,744)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation losses	-	(792)	-	-	-	792	-
Movement in deferred tax on realisation of equities	-	-	34	-	(34)	-	-
Realised gains	-	-	-	-	43	(43)	-
Surplus attributable to assets sold	-	-	(603)	-	603	-	-
Excess of cost over revalued amount taken to retained earnings	-	(522)	-	-	-	522	-
	-	(1,314)	(569)	-	612	1,271	-
Profit and total comprehensive income for the period	-	-	-	-	-	1,129	1,129
At 30 June 2019	1,292	17,456	5	95	28,990	13,931	61,769

Condensed consolidated interim statement of changes in equity (continued)

for the six months ended 30 June 2020

Full year 2019 Audited	Issued share capital £'000	Share Based payment reserve £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
			Property £'000	Other £'000				
At 1 January 2019	1,292	-	18,770	574	95	28,378	13,275	62,384

Full year 2019 Audited	Issued share capital £'000	Share Based payment reserve £'000	Revaluation reserves		Capital redemption £'000	Realised capital £'000	Retained earnings £'000	Total £'000
			Property £'000	Other £'000				
Transactions with owners: Dividends	-	-	-	-	-	-	(2,829)	(2,829)
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation (losses)	-	-	(2,888)	-	-	-	2,888	-
Realised gains/(losses)	-	-	-	-	-	43	(43)	-
Movement in deferred tax on realisation of equities	-	-	-	29	-	(29)	-	-
Surplus attributable to assets sold in the year	-	-	-	(603)	-	603	-	-
Reassessment of carrying value of reserves	-	-	(4,168)				4,168	
Excess of cost over revalued amount taken to retained earnings	-	-	1,217	-	-	-	(1,217)	-
	-	-	(5,839)	(574)	-	617	5,796	-
Share award expenses		12						12
Profit and total comprehensive income for the period	-	-	-	-	-	-	1,154	1,154
At 31 December 2019	1,292	12	12,931	-	95	28,995	17,396	60,721

Condensed consolidated interim statement of cashflows

for the six months ended 30 June 2020

	Unaudited First half 2020 £'000	Unaudited First half 2019 £'000	Audited Full year 2019 £'000
Operating activities			
Profit before tax for the period	(2,665)	1,140	1,148
Adjustments for:			
Net valuation losses on investment property	4,515	792	2,888
Net gains on investments	-	(53)	(53)
Share based payment expense	7	-	12
Finance income	(2)	(5)	(6)
Finance expense	458	396	856
Operating cash flow before changes in working capital and provisions	2,313	2,270	4,845
(Increase)/decrease in trade and other receivables	(393)	(197)	(667)
Increase/(decrease) in trade and other payables	131	(156)	325
Cash generated from operations	2,051	1,917	4,503
Finance income	2	5	6
Finance expense	(458)	(396)	(856)
Income tax received/(paid)	22	-	(93)
Net cash flows from operating activities	1,617	1,526	3,560
Investing activities			
Purchase of fixed assets - investment property	-	(11,897)	(11,898)
Sale of fixed assets - equity investments	-	723	724
Net cash flows from investing activities	-	(11,174)	(11,174)
Financing activities			
Dividends paid	(1,397)	(1,744)	(2,829)
New bank borrowings	-	6,800	6,800
Net cash flows from financing activities	(1,397)	5,056	3,971
Net (decrease)/increase in cash and cash equivalents	220	(4,592)	(3,643)

	Unaudited First half 2020 £'000	Unaudited First half 2019 £'000	Audited Full year 2019 £'000
Cash and cash equivalents at 1 January	1,559	5,202	5,202
Cash and cash equivalents at period end	1,779	610	1,559

**Notes (Unaudited)
for the six months ended 30 June 2020**

1. Nature of operations and general information

Highcroft Investments PLC ('Highcroft' or 'company') and its subsidiaries' (together 'the group') principal activity is investment in property. It is incorporated and domiciled in Great Britain. The address of Highcroft'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 group. These condensed consolidated interim financial statements have been approved for issue by the directors on 2 September 2020. The financial information for the period ended 30 June 2020 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 2019 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 2020. They have been prepared in accordance with IAS 34, 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 2019.

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 2019.

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

The financial statements are drawn up on a going concern basis. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and consider that there are no material uncertainties that lead to significant doubt upon the group's ability to continue as a going concern. Cash flow forecasts are prepared annually as part of the planning and budgeting process and are monitored and reworked regularly. The group has fixed-term non-amortising borrowing and has additional headroom available.

3. Segment reporting

The group has one main business segment - property.

In 2020 the largest tenant represented 11% (2019 9%) and the second largest tenant represented 7% (2019 7%) of gross commercial property income for the period.

4. Income tax credit/(charge)

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
Current tax:			
On revenue profits	8	-	72
On capital profits	-	(11)	(99)
	8	(11)	(27)
Deferred tax	-	-	33
Total tax	8	(11)	6

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 property activities.

**Notes (Unaudited) (continued)
for the six months ended 30 June 2020**

5. Dividends

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

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
2019 final: 27.00p per ordinary share (2018 final 33.75p)	1,397	1,744	1,744
2019 interim: 21.00p per ordinary share	-	-	1,085
	1,397	1,744	2,829

6. Earnings per share

The calculation of earnings per share is based on the loss for the period of £2,657,000 (2019 profit £1,129,000) and on 5,169,695 shares which is the weighted average number of shares in issue during the period ended 30 June 2020, (2019 5,167,240) .

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 £1,858,000 (2019 £1,921,000) has been calculated.

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
Earnings:			
Basic earnings	(2,657)	1,129	1,154
Adjustments for:			
Net valuation losses on investment property	4,515	792	2,888
Gains/(losses) on investments	-	-	(53)
Income tax on profits	-	-	66
Adjusted earnings	1,858	1,921	4,055
Per share amount:			
Earnings per share (unadjusted)	(51.4p)	21.9p	22.3p
Adjustments for:			
Net valuation losses on investment property	87.3p	15.3p	55.9p
(Gains) / losses on investments	-	-	(1.0p)
Income tax on profits	-	-	1.3p
Adjusted earnings per share	35.9p	37.2p	78.5p

Notes (Unaudited) (continued) for the six months ended 30 June 2020

7. Investment property

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
Valuation at 1 January	86,710	77,700	77,700
Additions	-	11,897	11,898
Disposals	-	-	-
(Loss)/gain on revaluation	(4,515)	(792)	(2,888)
Valuation at period end	82,195	88,805	86,710

The directors have used an external independent valuation of properties at 30 June 2020 which has been carried out consistently with the annual valuation. The independent valuer, Knight Frank LLP, included a material uncertainty clause in their valuation reports relating to assets valued at £52,820,000, 64%, of the total valuation. This clause indicates that, due to the impact of COVID-19, less certainty, and a higher degree of caution, should be attached to the valuations of those assets to which the clause applies than would otherwise be the case.

8. Equity investments

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
Valuation at 1 January	-	679	679
Additions	-	-	-
Disposals	-	(670)	(670)
	-	-	9
Unlisted investments transferred to other receivables	-	-	(9)
Valuation at period end	-	9	0

9. Interest bearing loans

	First half 2020 £'000	First half 2019 £'000	Full year 2019 £'000
Short-term bank loans due within one year	4,000	-	4,000
Medium-term loans	22,200	26,200	22,200
The medium-term bank loans comprise amounts falling due as follows:			
Between one and two years	7,500	4,000	-
Between two and five years	-	7,500	7,500
Over five years	14,700	14,700	14,700

The debt is secured on certain assets within the group's property portfolio. £2,500,000 of the amounts falling due within one year were re-financed on 3 July 2020 and a facility letter is in place to re-finance the remaining £1,500,000 on the maturity date in November 2020.

Notes (Unaudited) (continued)
for the six months ended 30 June 2020

10. Share capital

	First half 2020	First half 2019	Full year 2019
Allotted, called up and fully paid ordinary shares of 25p each			
At 1 January	5,167,240	5,167,240	5,167,240
Issued in the year in connection with Highcroft incentive plan	7,935	-	-
At period end	5,175,175	5,167,240	5,167,240

11. Related party transactions

Kingerlee Holdings Limited owns, through its wholly owned subsidiaries, 27.2% (2019 27.2%) of the company's shares and D H Kingerlee is a director of both the company and Kingerlee Holdings Limited.

During the period, the group made purchases from Kingerlee Limited, a subsidiary of Kingerlee Holdings Limited, being a service charge in relation to services at Thomas House, Kidlington of £7,000 (2019 £7,000) and a recharge of computer and courier costs totalling £nil (2019 £530). The amount owed at 30 June 2020 was £nil (2019 £nil). All transactions were undertaken on an arm's length basis.

12. Net assets per share

	First half 2020	First half 2019	Full year 2019
Net assets	£56,674,000	£61,769,000	£60,721,000
Ordinary shares in issue	5,175,175	5,167,240	5,167,240
Basic net assets per share	1095p	1195p	1175p

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated set of half-year financial statements has been prepared in accordance with IAS 34. The half-year management report includes a fair review of the information required by 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, namely:

- an indication of the important events that have occurred during the first six months of the financial year ending 31 December 2020 and their impact on the condensed consolidated set of half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- disclosure of material related party transactions in the first six months of the financial year, and any material changes in the related party transactions described in the last annual report.

A list of current directors is maintained on the Highcroft Investments PLC website: www.highcroftplc.com.

By order of the board.

Charles Butler

Chairman

2 September 2020

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