

# Leveraging market opportunities to grow sustainably

Interim report for the 6 months  
ended 30 June 2023

## Highcroft Investments PLC

### Interim Report for the six months ended 30 June 2023

#### Interim management report and statement of directors' responsibilities

##### Key Highlights:

\*Gross rental income decreased 6% to £2,605,000 (2022 £2,775,000)

\*Net rental income decreased 8% to £2,335,000 (2022 £2,538,000)

\*93% occupancy in the property portfolio (2022 93%) at period end

\*100% of Q1 and Q2 rent, and 96% of Q3 rent, due to date, collected

\*Total earnings per share 31.9p (2022 124.2p)

\*Adjusted earnings per share (see note 7), decreased 15% to 25.2p (2022 29.5p)

\*Property valuation increased by 3.4% to £80,540,000 (December 2022 £77,910,000), a 0.8% decrease on a like-for-like basis

\*Net assets per share decreased 0.1% to 1080p (June 2022 1364p, December 2022 1081p)

\*Loan to value (see note 11), 33.8% (December 2022 34.9%)

Dear Shareholder

Whilst reporting our half year 2023 results our tenants, their staff and customers, continue to be affected by global and national issues including the conflict in Ukraine, high interest rates and high inflation in the UK. In this context we are pleased that our results have continued to perform satisfactorily.

##### Operating environment

The first half of 2023 has seen an economic environment with some of the highest inflation experienced in recent times in the UK and increasing interest rates, mainly being used as a tool to try and curb inflation. These factors have had a negative impact on the overall property market and have led to very low activity in the sector. Rental growth has been slightly positive although this has mainly been in the industrial and retail warehouse sectors. The office market continues to be under pressure as demand has yet to pick up and yields on these assets are weakening. The next few months are likely to remain challenging as rates remain high and it is likely that activity will only gain momentum once there is confidence in the market that inflation is under control and that interest rates may start to decline.

We are pleased with the first half performance of Highcroft and feel that it is well protected against the negative market environment with a strong portfolio, fixed interest rates and no loan facilities expiring before August 2026.

##### Management

As previously disclosed, Paul Leaf-Wright took over the role of chief executive from Simon Gill on 1 January 2023 and Simon Gill resigned from the board on 31 March 2023.

On 1 January 2023 Cube Asset Management Limited were also appointed to focus on the asset management functions, primarily asset sourcing, rental negotiations and maintenance together with the development of our new asset at Roche. To date, this new arrangement is working very well, and we have seen good results in the overall management of the portfolio.

##### Balance sheet

During the first half of the year the Company has been active in management of the asset base. As previously announced to shareholders we completed the sale of our Llantrisant asset on 13 February 2023. This sale resulted in a net capital profit on the sale of the asset of £1m (with proceeds 16% above the December 2022 valuation) although we did have to reverse the IFRS rent free provision of £138,000, through the income statement, that had been accounted for as income in the past periods. The net uplift to the company is still significant and, as previously disclosed, as the tenant had already vacated, this was an excellent outcome.

In order to ensure that the balance sheet is fully invested, the company has completed two property acquisitions. On 13 April 2023 we completed on the Aberdare property with the new Ipswich asset completing on 25 May 2023. Both these assets are expected to contribute positively to income and asset growth.

We also are pleased to inform shareholders that on our property at Roche, St Austell where we had a vacant piece of land, we have successfully secured a new 15-year lease from DHL to occupy a brand-new 28,000 sq ft warehouse, construction of which commenced in April 2023 and is expected to complete by 30 April 2024. This development, with a total cost of £4.3m will be funded from existing cash resources, and we expect to see an uplift in the valuation above cost on completion. Once complete the company will have an optimally invested balance sheet into a diverse portfolio of assets.

This new warehouse also gives us the opportunity to build a high standard property with an above average EPC rating which will improve Highcroft's weighted average EPC position.

The mid-year valuation of the portfolio resulted in a net downward valuation of £664,000, mainly as a result of the lower valuation of our office assets and in particular the Cardiff property. The Cardiff asset remains vacant, and the valuers have marked it down by £1m. We have been actively looking at solutions for this property both to secure a tenant or to exit the property but given current market conditions this is proving challenging. The remainder of the portfolio saw some uplifts especially where new rental terms have been agreed with occupiers and the generally stable industrial market, offset by reductions on the retail and office assets. The St Austell development asset has been included in the portfolio for the first time and the valuation includes the land value and amounts spent to date. This asset will naturally increase in value as further capital is spent on construction over the next twelve months.

Our gearing has remained constant at £27.2m with no loan maturities before August 2026. This has meant we have been protected against the interest rate rises that the economy has experienced over the past 18 months. We have comfortably met all our debt covenants during the reporting period. We recently completed new property valuations on certain assets held by the bank as security and are pleased to report that these are all in line with the lender's requirements.

Whilst we hold some cash at the balance sheet date this is earmarked, as noted above, for the new development and for dividends. The positive aspect has been that the group has earned a fair interest rate on its cash holding given the higher rates on offer at present.

### **Income statement**

Given that we sold a high yielding asset in Llantrisant and replaced this with two assets a few months later, our total income is lower in the first half than the 2022 first half. This income is also negatively impacted by the reversal of the remaining £138,000 rent free provided on the Llantrisant asset which, in terms of accounting policy, needs to be accounted through the income statement (as opposed to being offset against the capital profit). We do believe that income will thus be higher in the second half as the new assets will contribute for the full 6-month period.

Total expenses have generally been well controlled and are consistent with both our budgets and the prior year.

With a new management structure in place and some of the functions previously performed by the CEO being outsourced to Cube Asset management, there are some expenses now reflecting as property costs as opposed to salaries, which are included in administration costs.

Following the decision at the 2023 AGM to adopt the new remuneration policy there has been a, non-cash, adjustment of £114,000 reflecting the immediate vesting of the remaining shares previously issued under the Highcroft Incentive Plan.

We earned £134,000 interest on cash deposits, however this, together with any intra-group interest, is taxable as residual income and hence the higher-than-normal tax charge.

### **Dividend**

The board is pleased to confirm an interim property income distribution of 23p (2022 23p) per share, payable on 20 October 2023 to shareholders on the register at 22 September 2023 (with an ex-dividend date of 21 September 2023). This dividend is reflective of the steady performance of the company.

### **Outlook**

While the first half performance has been satisfactory, we are optimistic that the asset management and other initiatives that have taken place in this period will lead to an improved performance in the second half.

We, as a board, take a prudent view and monitor the macro-economic situation closely. We will continue to work with our tenants and support them where we can, whilst at the same time keeping our gearing low and a healthy cash balance to ensure we are well positioned to assess future opportunities.

#### **Statement of principal risks and uncertainties**

The directors review principal risks at each board meeting and carried out a mid-year review on 4 September 2023. They consider that there have been no material changes to the group's principal risks as set out in detail on pages 40 to 43 of the annual report and accounts for the year ended 31 December 2022. The current principal risk areas can be summarised as:

| <b>External risks</b>   | <b>Internal risks</b> |
|---|-----------------------|
| Macro-economic and political outlook                            | Business strategy     |
| Regulatory and compliance burden                                | Key personnel         |
| Occupier demand and tenant default                              | Sustainability        |
| Commercial property investor demand                             |                       |
| Availability and cost of finance and debt covenant requirements |                       |

#### **Related parties and related party transactions**

During the period Simon Gill a director and shareholder of the business resigned, on 31 March 2023. Paul Leaf-Wright was appointed a director of the business on 1 January 2023. Related party transactions are disclosed in note 12. There have been no material changes in related party transactions in the period.

## Interim management report and statement of directors' responsibilities (continued)

### Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, the half-year report and condensed consolidated set of half-year financial statements have been prepared in accordance with IAS 34. The half-year report and condensed consolidated set of half-year financial statements give a true and fair view of the assets, liabilities, financial position and return of the Group. The half-year report and condensed consolidated set of half-year financial statements include 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 2023 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](http://www.highcroftplc.com).

By order of the board.

Charles Butler

*Chairman*

4 September 2023

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018.

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## INDEPENDENT REVIEW REPORT TO HIGHCROFT INVESTMENTS PLC

### Conclusion

We have been engaged by Highcroft Investments plc ("the Group") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim statement of cash flows and related notes 1 to 16.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 (Revised), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with UK adopted IFRSs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting."

### Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410 (Revised), however future events or conditions may cause the entity to cease to continue as a going concern.

### Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Mazars LLP  
Chartered Accountants and Statutory Auditor  
30 Old Bailey  
London  
EC4M 7AU  
4 September 2023

### Notes:

The maintenance and integrity of the Highcroft Investments plc's web site is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



**Condensed consolidated interim statement of comprehensive income (unaudited)**

**for the six months ended 30 June 2023**

|   |       | <b>Unaudited</b><br><b>Six months ended 30 June</b> |                          |                        |                          |                          |                        |
|---|-------|---|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
|   |       | <b>2023</b>   |                          |                        | <b>2022</b>              |                          |                        |
|   | Notes | <b>Revenue<br/>£'000</b>                            | <b>Capital<br/>£'000</b> | <b>Total<br/>£'000</b> | <b>Revenue<br/>£'000</b> | <b>Capital<br/>£'000</b> | <b>Total<br/>£'000</b> |
| <b>Continuing operations</b>  |       |   |                          |                        |                          |                          |                        |
| Gross rental income   |       | <b>2,605</b>  | -                        | <b>2,605</b>           | 2,775                    | -                        | 2,775                  |
| Property operating expenses   |       | <b>(270)</b>  | -                        | <b>(270)</b>           | (237)                    | -                        | (237)                  |
| <b>Net rental income</b>  |       | <b>2,335</b>  | -                        | <b>2,335</b>           | 2,538                    | -                        | 2,538                  |
| Net gain on disposal of investment property                           |       | -   | <b>1,014</b>             | <b>1,014</b>           | -                        | -                        | -                      |
| Valuation gains on investment property                                |       | -   | <b>1,331</b>             | <b>1,331</b>           | -                        | 5,232                    | 5,232                  |
| Valuation losses on investment property                               |       | -   | <b>(1,995)</b>           | <b>(1,995)</b>         | -                        | (320)                    | (320)                  |
| <b>Net valuation (losses)/gains on investment property</b>            | 8&9   | -   | <b>(664)</b>             | <b>(664)</b>           | -                        | 4,912                    | 4,912                  |
| <b>Administrative expenses</b>  |       | <b>(693)</b>  | -                        | <b>(693)</b>           | (583)                    | -                        | (583)                  |
| <b>Operating profit before net financing costs</b>                    |       | <b>1,642</b>  | <b>350</b>               | <b>1,992</b>           | 1,955                    | 4,912                    | 6,867                  |
| Finance income  |       | <b>134</b>  | -                        | <b>134</b>             | 8                        | -                        | 8                      |
| Finance expenses  |       | <b>(414)</b>  | -                        | <b>(414)</b>           | (422)                    | -                        | (422)                  |
| <b>Net finance costs</b>  |       | <b>(280)</b>  | -                        | <b>(280)</b>           | (414)                    | -                        | (414)                  |
| <b>Profit before tax</b>  |       | <b>1,362</b>  | <b>350</b>               | <b>1,712</b>           | 1,541                    | 4,912                    | 6,453                  |
| Income tax charge   | 5     | <b>(52)</b>   | -                        | <b>(52)</b>            | (7)                      | -                        | (7)                    |
| <b>Total profit and comprehensive income for the financial period</b> |       | <b>1,310</b>  | <b>350</b>               | <b>1,660</b>           | 1,534                    | 4,912                    | 6,446                  |
| <b>Basic and diluted earnings per share</b>                           | 7     |   |                          | <b>31.9p</b>           |                          |                          | 124.2p                 |

The total column represents the statement of comprehensive income as defined in IAS1

**Condensed consolidated interim statement of financial position (unaudited)**

**as at 30 June 2023**

|                                       | Note | Unaudited<br>30 June<br>2023<br>£'000 | Audited<br>31 December<br>2022<br>£'000 |
|---------------------------------------|------|---------------------------------------|---|
| <b>Assets</b>                         |      |                                       |   |
| Investment property                   | 8    | 79,965                                | 71,160                                  |
| Investment property under development | 9    | 575                                   | -                                       |
| <b>Total non-current assets</b>       |      | <b>80,540</b>                         | <b>71,160</b>                           |
| <b>Current assets</b>                 |      |                                       |   |
| Trade and other receivables           |      | 1,387                                 | 1,143                                   |
| Cash at bank and in hand              |      | 4,750                                 | 7,206                                   |
|                                       |      | 6,137                                 | 8,349                                   |
| Assets classified as held for sale    | 10   | -                                     | 6,750                                   |
| <b>Total current assets</b>           |      | <b>6,137</b>                          | <b>15,099</b>                           |
| <b>Total assets</b>                   |      | <b>86,677</b>                         | <b>86,259</b>                           |
| <b>Liabilities</b>                    |      |                                       |   |
| <b>Current liabilities</b>            |      |                                       |   |
| Trade and other payables              |      | (3,223)                               | (2,883)                                 |
| <b>Total current liabilities</b>      |      | <b>(3,223)</b>                        | <b>(2,883)</b>                          |
| <b>Non-current liabilities</b>        |      |                                       |   |
| Interest-bearing loans and borrowings | 11   | (27,200)                              | (27,200)                                |
| <b>Total non-current liabilities</b>  |      | <b>(27,200)</b>                       | <b>(27,200)</b>                         |
| <b>Total liabilities</b>              |      | <b>(30,423)</b>                       | <b>(30,083)</b>                         |
| <b>Net assets</b>                     |      | <b>56,254</b>                         | <b>56,176</b>                           |
| <b>Equity</b>                         |      |                                       |   |
| Issued share capital                  |      | 1,302                                 | 1,299                                   |
| Share premium                         |      | 312                                   | 226                                     |
| Share based payment reserve           |      | -                                     | 160                                     |
| Other equity reserve                  |      | -                                     | (207)                                   |
| Revaluation reserve – property        |      | 11,485                                | 11,499                                  |
| Capital redemption reserve            |      | 95                                    | 95                                      |
| Realised capital reserve              |      | 30,437                                | 29,623                                  |
| Retained earnings                     |      | 12,623                                | 13,481                                  |
| <b>Total equity</b>                   |      | <b>56,254</b>                         | <b>56,176</b>                           |



Condensed consolidated interim statement of changes in equity

for the six months ended 30 June 2023

|  | Issued<br>share<br>capital<br>(note 12) | Share<br>premium | Share<br>based<br>payment | Other<br>equity<br>reserve | Revaluation<br>reserve<br>property | Capital<br>redemption | Realised<br>Capital | Retained<br>earnings | Total         |
|--|---|------------------|---------------------------|----------------------------|------------------------------------|-----------------------|---------------------|----------------------|---------------|
|  | £'000                                   | £'000            | £'000                     | £'000                      | £'000                              | £'000                 | £'000               | £'000                | £'000         |
| <b>At 1 January 2023</b>   | <b>1,299</b>                            | <b>226</b>       | <b>160</b>                | <b>(207)</b>               | <b>11,499</b>                      | <b>95</b>             | <b>29,623</b>       | <b>13,481</b>        | <b>56,176</b> |
| Transactions with owners:  |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Dividends  | -                                       |                  | -                         | -                          | -                                  | -                     | -                   | (1,718)              | (1,718)       |
| Issue of shares  | 3                                       | 101              | -                         | (104)                      | -                                  | -                     | -                   | -                    | -             |
| Share issue fees   |   | (15)             | -                         | -                          | -                                  | -                     | -                   | -                    | (15)          |
|  | 3                                       | 86               | -                         | (104)                      | -                                  | -                     | -                   | (1,718)              | (1,733)       |
| Reserve transfers:   |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Non-distributable items<br>recognised in income<br>statement:            |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Revaluation losses   | -                                       | -                | -                         | -                          | (1,995)                            | -                     | -                   | 1,995                | -             |
| Revaluation gains  | -                                       | -                | -                         | -                          | 1,331                              | -                     | -                   | (1,331)              | -             |
| Realised gains   | -                                       | -                | -                         | -                          | -                                  | -                     | 1,014               | (1,014)              | -             |
| Deficit attributable to assets<br>sold in the period                     | -                                       | -                | -                         | -                          | 200                                | -                     | (200)               | -                    | -             |
| Change in excess of cost over<br>fair value through retained<br>earnings | -                                       | -                | -                         | -                          | 450                                | -                     | -                   | (450)                | -             |
| Share award vested   | -                                       | -                | (311)                     | 311                        | -                                  | -                     | -                   | -                    | -             |
|  | -                                       | -                | (311)                     | 311                        | (14)                               | -                     | 814                 | (800)                | -             |
| Share award expensed   | -                                       | -                | 151                       | -                          | -                                  | -                     | -                   | -                    | 151           |
| Total profit and<br>comprehensive income for the<br>period               | -                                       | -                | -                         | -                          | -                                  | -                     | -                   | 1,660                | 1,660         |
| <b>At 30 June 2023</b>   | <b>1,302</b>                            | <b>312</b>       | <b>-</b>                  | <b>-</b>                   | <b>11,485</b>                      | <b>95</b>             | <b>30,437</b>       | <b>12,623</b>        | <b>56,254</b> |

**Condensed consolidated interim statement of changes in equity**

**for the six months ended 30 June 2022**

|  | Issued<br>share<br>capital<br>(note 12) | Share<br>premium | Share<br>based<br>payment | Other<br>equity<br>reserve | Revaluation<br>reserve<br>property | Capital<br>redemption | Realised<br>Capital | Retained<br>earnings | Total         |
|--|---|------------------|---------------------------|----------------------------|------------------------------------|-----------------------|---------------------|----------------------|---------------|
|  | £'000                                   | £'000            | £'000                     | £'000                      | £'000                              | £'000                 | £'000               | £'000                | £'000         |
| <b>At 1 January 2022</b>   | <b>1,296</b>                            | <b>117</b>       | <b>102</b>                | <b>(121)</b>               | <b>19,236</b>                      | <b>95</b>             | <b>29,623</b>       | <b>15,769</b>        | <b>66,117</b> |
| Transactions with owners:  |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Dividends  | -                                       |                  | -                         | -                          | -                                  | -                     | -                   | (1,714)              | (1,714)       |
| Issue of shares  | 3                                       | 109              | -                         | (112)                      | -                                  | -                     | -                   | -                    | -             |
|  | 3                                       | 109              | -                         | (112)                      | -                                  | -                     | -                   | (1,714)              | (1,714)       |
| Reserve transfers:   |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Non-distributable items<br>recognised in income<br>statement:            |   |                  |                           |                            |                                    |                       |                     |                      |               |
| Revaluation losses   | -                                       | -                | -                         | -                          | (320)                              | -                     | -                   | 320                  | -             |
| Revaluation gains  | -                                       | -                | -                         | -                          | 5,232                              | -                     | -                   | (5,232)              | -             |
| Change in excess of cost over<br>fair value through retained<br>earnings | -                                       | -                | -                         | -                          | (1,326)                            | -                     | -                   | 1,326                | -             |
|  | -                                       | -                | -                         | -                          | 3,856                              | -                     | -                   | (3,856)              | -             |
| Share award expensed   | -                                       | -                | 30                        | -                          | -                                  | -                     | -                   | -                    | 30            |
| Total profit and<br>comprehensive income for the<br>period               | -                                       | -                | -                         | -                          | -                                  | -                     | -                   | 6,446                | 6,446         |
| <b>At 30 June 2022</b>   | <b>1,299</b>                            | <b>226</b>       | <b>132</b>                | <b>(233)</b>               | <b>22,822</b>                      | <b>95</b>             | <b>29,623</b>       | <b>16,915</b>        | <b>70,879</b> |

**Notes (Unaudited) (continued)**

**for the six months ended 30 June 2023**

**Condensed consolidated interim statement of cashflows**

**for the six months ended 30 June 2023**

|   | <b>Unaudited<br/>First half<br/>2023<br/>£'000</b> | <b>Unaudited<br/>First half<br/>2022<br/>£'000</b> |
|---|--|--|
| <b>Operating activities</b>   |  |  |
| Profit before tax for the period  | <b>1,712</b>                                       | 6,453  |
| Adjustments for:  |  |  |
| Net valuation losses/(gains) on investment property                         | <b>664</b>   | (4,912)  |
| Net gain on disposal of investment property                                 | <b>(1,014)</b>                                     | -  |
| Share based payment expense   | <b>151</b>   | 30   |
| Finance income  | <b>(134)</b>                                       | (8)  |
| Finance expense   | <b>414</b>   | 422  |
| <b>Operating cash flow before changes in working capital and provisions</b> | <b>1,793</b>                                       | 1,985  |
| (Increase)/decrease in trade and other receivables                          | <b>(244)</b>                                       | 1,128  |
| Increase/(decrease) in trade and other payables                             | <b>288</b>   | (64)   |
| <b>Cash generated from operations</b>                                       | <b>1,837</b>                                       | 3,049  |
| Finance income received   | <b>134</b>   | 8  |
| Finance expense paid  | <b>(414)</b>                                       | (422)  |
| Income tax paid   | <b>-</b>   | (7)  |
| <b>Net cash flows from operating activities</b>                             | <b>1,557</b>                                       | 2,628  |
| <b>Investing activities</b>   |  |  |
| Purchase of fixed assets – investment property                              | <b>(9,820)</b>                                     | (428)  |
| Purchase of fixed assets – assets under development                         | <b>(224)</b>                                       | -  |
| Sale of fixed assets – investment property                                  | <b>7,764</b>                                       | -  |
| <b>Net cash flows from investing activities</b>                             | <b>(2,280)</b>                                     | (428)  |
| <b>Financing activities</b>   |  |  |
| Dividends paid  | <b>(1,718)</b>                                     | (1,714)  |
| Share issue fees  | <b>(15)</b>  | -  |
| Repayment of bank borrowings  | <b>-</b>   | (7,500)  |
| New bank borrowings   | <b>-</b>   | 7,500  |
| <b>Net cash flows from financing activities</b>                             | <b>(1,733)</b>                                     | (1,714)  |
| Net (decrease)/increase in cash and cash equivalents                        | <b>(2,456)</b>                                     | 486  |
| Cash and cash equivalents at 1 January                                      | <b>7,206</b>                                       | 5,715  |
| <b>Cash and cash equivalents at period end</b>                              | <b>4,750</b>                                       | 6,201  |

## **Notes (Unaudited) (continued)**

**for the six months ended 30 June 2023**

## **Notes (Unaudited)**

**for the six months ended 30 June 2023**

### **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 Park Farm Technology Centre, Akeman Street, Kirtlington, OX5 3JQ. 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 4 September 2023. The financial information for the period ended 30 June 2023 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 2022 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 unaudited condensed consolidated interim financial statements are for the six months ended 30 June 2023. They have been prepared in accordance with IAS 34, Interim Financial Reporting and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. 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 2022.

At the date of authorisation of these financial statements, the group has adopted the following new and revised IFRS Standards effective as of 1 January 2023:

- IFRS 17 Insurance contracts including amendments to IFRS 17
- Amendments to IAS 1 and IFRS Practice Statement 2—Disclosure of accounting policies
- Amendments to IAS 8—Definition of accounting estimates
- Amendment to IAS 12 - International tax reform - pillar two model rules
- Amendments to IAS 12—Deferred tax related to assets and liabilities arising from a single transaction

The above effective new and revised IFRS standards have not had a material impact on the Group's results.

At the date of authorisation of these financial statements, the group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IAS 1—Classification of liabilities as current or non-current including classification of liabilities as current or non-current
- Amendments to IAS 16—Leases on sale and leaseback
- Amendments to IAS 7 and IFRS 7 on supplier finance arrangements
- IFRS S1: General sustainability-related disclosures
- IFRS S2: Climate-related disclosures

None of these standards are anticipated to have a material impact upon the Group's results.

These unaudited 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 2022 which were prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom and have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

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

In light of the ongoing conflict in Ukraine, the recent issues in the banking sector, the increasing UK interest rates and the high cost of living and their combined effects on the UK economy, and the sectors in which the group and company operates, the directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the group's and company's financial statements for the period ended 30 June 2023. The directors have concluded that the impact of Covid-19 as a standalone risk is no longer a significant threat to the business. The group's and company's going concern assessment considers the group's and company's principal risks, and is dependent on a number of factors, including cashflow and liquidity, continued access to borrowing facilities and the ability to continue to operate the group's and company's borrowings within its financial covenants. The debt has a number of financial

**Notes (Unaudited) (continued)****for the six months ended 30 June 2023**

covenants that the group is required to comply with including an LTV covenant a 12-month historical interest cover ratio, and the facility agreements have cure provisions in the event of a breach. The going concern assessment is based on a 12-month outlook from the date of the approval of these condensed financial statements, using the group's five-year forecast. This forecast is based on a plausible scenario, which includes the following key sensitivities occurring either separately or together:

- A 10% reduction in net income from our portfolio.
- A 10% increase in the forecast proposed capital expenditure.
- An increase in assumed inflation rates by 8%

Under this scenario, the group and company are forecast to maintain sufficient cash and liquidity resources and remain compliant with its financial covenants.

Based on the consideration above, the board believes that the group and company have the ability to continue in business for at least 12 months from the date of approval of this interim statement for the period ended 30 June 2023, and therefore have adopted the going concern basis in the preparation of this financial information.

**3. Analysis of statement of comprehensive income**

The profit or loss section of the statement of comprehensive income is analysed into two columns, being revenue and capital. The capital column comprises valuation gains and losses on property, profits and losses on disposal of property, and all gains and losses on financial assets and the related tax impact. The revenue column includes all other items.

**4. Segment reporting**

The group has one main business segment, property investment which is based in England and Wales.

In the first six months of 2023 the largest tenant represented 13% (2022 13%) and the second largest tenant represented 8% (2022 11%) of gross commercial property income for the period.

**5. Income tax charge**

|                                 | <b>First half<br/>2023<br/>£'000</b> | First half<br>2022<br>£'000 |
|---------------------------------|--------------------------------------|-----------------------------|
| Current tax:                    |                                      |                             |
| On revenue profits – prior year | 8                                    | 7                           |
| current year                    | 44                                   | -                           |
| <b>Total tax</b>                | <b>52</b>                            | <b>7</b>                    |

The current year 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.

**6. Dividends**

On 4 September 2023, the directors declared a property income distribution of 23p per share (2022 23p per share) payable on 20 October 2023 to shareholders registered at 22 September 2023.

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

|   | <b>First half<br/>2023<br/>£'000</b> | First half<br>2022<br>£'000 |
|---|--------------------------------------|-----------------------------|
| 2022: final 33p per ordinary share (2021 final 33p) | <b>1,718</b>                         | 1,714                       |

**Notes (Unaudited) (continued)****for the six months ended 30 June 2023****7. Earnings per share**

Adjusted earnings per share, which is an alternative performance measure\*, is considered by management to provide the best indication of trading profits and hence the ability of the business to fund dividend payments. The calculation of earnings per share is based on the profit for the period of £1,660,000 (2022 £6,446,000) and on 5,200,843 shares which is the weighted average number of shares in issue during the period ended 30 June 2023 (2022 5,189,362).

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 £1,310,000 (2022 £1,534,000) has been calculated.

\*An alternative performance measure is a measure not defined by IFRS or UK GAAP.

|   | <b>First half<br/>2023<br/>£'000</b> | First half<br>2022<br>£'000 |
|---|--------------------------------------|-----------------------------|
| Earnings:   |                                      |                             |
| Basic earnings                                      | <b>1,660</b>                         | 6,446                       |
| Adjustments for:                                    |                                      |                             |
| Profit on disposal of investment property           | <b>(1,014)</b>                       | -                           |
| Net valuation losses/(gains) on investment property | <b>664</b>                           | (4,912)                     |
| Adjusted earnings                                   | <b>1,310</b>                         | 1,534                       |
| Per share amount:                                   |                                      |                             |
| Earnings per share (unadjusted)                     | <b>31.9p</b>                         | 124.2p                      |
| Adjustments for:                                    |                                      |                             |
| Profit on disposal of investment property           | <b>(19.5p)</b>                       | -                           |
| Net valuation losses/(gains) on investment property | <b>12.8p</b>                         | (94.7p)                     |
| Adjusted earnings per share                         | <b>25.2p</b>                         | 29.5p                       |

**8. Investment property**

|  | <b>First half<br/>2023<br/>£'000</b> | Full year<br>2022<br>£'000 |
|--|--------------------------------------|----------------------------|
| Valuation at 1 January   | <b>77,910</b>                        | 87,565                     |
| Additions  | <b>9,820</b>                         | 726                        |
| Disposals  | <b>(6,750)</b>                       | -                          |
| Transfers to investment properties under development (note 9)      | <b>(281)</b>                         | -                          |
| Net loss on revaluation  | <b>(734)</b>                         | (10,381)                   |
| Valuation at period end  | <b>79,965</b>                        | 77,910                     |
| Less property held for sale categorised as current asset (note 10) | -                                    | (6,750)                    |
| Property categorised as fixed asset                                | <b>79,965</b>                        | 71,160                     |

The directors have used an external independent valuation of properties at 30 June 2023 which has been carried out consistently with the annual valuation.

## Notes (Unaudited) (continued)

for the six months ended 30 June 2023

### 8. Investment property (continued)

#### Valuation technique

The fair value of the property portfolio has been determined using an income capitalisation technique whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's-length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as level 3 in the fair value hierarchy. The following tables analyse quantitative information about these inputs.

| 30 June 2023                       |       | Warehouse             | Retail<br>warehouse | Leisure | Office | High street<br>retail | Total   |
|------------------------------------|-------|-----------------------|---------------------|---------|--------|-----------------------|---------|
| Valuation technique                |       | Income capitalisation |                     |         |        |                       |         |
| Fair value of property portfolio*  | £'000 | 37,750                | 21,800              | 9,925   | 6,250  | 4,240                 | 79,965  |
| Area                               | Sq ft | 602,717               | 133,726             | 88,145  | 29,567 | 12,622                | 866,777 |
| Gross estimated rental value (ERV) | £'000 | 2,881                 | 1,622               | 812     | 610    | 359                   | 6,284   |
| ERV per sq ft                      |       |                       |                     |         |        |                       |         |
| Minimum                            | £     | 2.40                  | 10.78               | 7.32    | 20.00  | 19.41                 |         |
| Maximum                            | £     | 10.57                 | 24.42               | 26.16   | 21.60  | 34.70                 |         |
| Weighted average                   | £     | 5.75                  | 13.02               | 11.52   | 20.67  | 29.55                 |         |
| Net initial yield                  |       |                       |                     |         |        |                       |         |
| Minimum                            | %     | 4.90                  | 6.03                | 6.69    | 0.00   | 0.00                  |         |
| Maximum                            | %     | 10.23                 | 8.38                | 8.52    | 5.68   | 9.90                  |         |
| Weighted average                   | %     | 6.28                  | 7.08                | 7.37    | 2.37   | 6.5                   |         |
| Reversionary yield                 |       |                       |                     |         |        |                       |         |
| Minimum                            | %     | 5.78                  | 6.13                | 6.69    | 6.37   | 7.15                  |         |
| Maximum                            | %     | 9.46                  | 8.18                | 8.62    | 13.32  | 10.56                 |         |
| Weighted average                   | %     | 6.43                  | 7.08                | 7.80    | 10.42  | 8.14                  |         |
| Equivalent yield                   |       |                       |                     |         |        |                       |         |
| Minimum                            | %     | 5.54                  | 6.13                | 7.23    | 6.27   | 6.99                  |         |
| Maximum                            | %     | 9.05                  | 7.86                | 8.70    | 8.54   | 8.84                  |         |
| Weighted average                   | %     | 6.17                  | 6.95                | 8.01    | 7.59   | 7.78                  |         |

- excluding investment properties under development



**Notes (Unaudited) (continued)**  
**for the six months ended 30 June 2023**

**8. Investment property (continued)**

| <b>31 December 2022</b>            |       | <b>Warehouse</b>             | <b>Retail<br/>warehouse</b> | <b>Leisure</b> | <b>Office</b> | <b>High street<br/>retail</b> | <b>Total</b> |
|------------------------------------|-------|------------------------------|-----------------------------|----------------|---------------|-------------------------------|--------------|
| <b>Valuation technique</b>         |       | <b>Income capitalisation</b> |                             |                |               |                               |              |
| Fair value of property portfolio   | £'000 | 34,875                       | 21,500                      | 9,875          | 7,600         | 4,060                         | 77,910       |
| Area                               | Sq ft | 581,386                      | 133,746                     | 87,955         | 29,323        | 16,433                        | 848,843      |
| Gross estimated rental value (ERV) | £'000 | 3,457                        | 1,610                       | 812            | 610           | 359                           | 6,848        |
| ERV per sq ft                      |       |                              |                             |                |               |                               |              |
| Minimum                            | £     | 2.40                         | 10.57                       | 7.35           | 20.00         | 13.95                         |              |
| Maximum                            | £     | 12.40                        | 24.35                       | 26.26          | 22.06         | 28.72                         |              |
| Weighted average                   | £     | 8.51                         | 12.95                       | 11.53          | 20.86         | 23.14                         |              |
| Net initial yield                  |       |                              |                             |                |               |                               |              |
| Minimum                            | %     | 4.90                         | 6.03                        | 6.69           | 0.00          | 1.98                          |              |
| Maximum                            | %     | 11.09                        | 8.66                        | 8.52           | 5.20          | 9.45                          |              |
| Weighted average                   | %     | 8.56                         | 7.19                        | 7.41           | 2.17          | 5.87                          |              |
| Reversionary yield                 |       |                              |                             |                |               |                               |              |
| Minimum                            | %     | 5.62                         | 6.31                        | 6.68           | 5.82          | 7.17                          |              |
| Maximum                            | %     | 18.40                        | 8.29                        | 8.75           | 9.49          | 10.56                         |              |
| Weighted average                   | %     | 11.60                        | 7.13                        | 7.85           | 7.96          | 8.50                          |              |
| Equivalent yield                   |       |                              |                             |                |               |                               |              |
| Minimum                            | %     | 5.52                         | 6.27                        | 6.75           | 5.72          | 7.00                          |              |
| Maximum                            | %     | 8.98                         | 7.76                        | 8.78           | 8.02          | 8.18                          |              |
| Weighted average                   | %     | 7.41                         | 6.92                        | 7.85           | 7.06          | 7.85                          |              |

**Notes (Unaudited) (continued)**

**for the six months ended 30 June 2023**

**8. Investment property (continued)**

**Information about the impact of changes in unobservable inputs on the fair value of the group's investment property portfolio**

Sensitivities for changes in assumptions have been set out below at +/- 5% for ERV and +/- 50bps for EY, which are deemed to be the levels that give a reasonable worst-case scenario given the like-for-like valuation fall of 0.9% already recognised in the period.

| <b>30 June 2023</b>                   |       | <b>Warehouse</b> | <b>Retail<br/>warehouse</b> | <b>Leisure</b> | <b>Office</b> | <b>High<br/>street<br/>retail</b> | <b>Total</b> |
|---------------------------------------|-------|------------------|-----------------------------|----------------|---------------|-----------------------------------|--------------|
| Fair value of<br>property portfolio * | £'000 | 37,750           | 21,800                      | 9,925          | 6,250         | 4,240                             | 79,965       |
| Impact on valuation<br>of:            |       |                  |                             |                |               |                                   |              |
| +5% on ERV                            |       | 1,903            | 1,088                       | 495            | 312           | 217                               | 4,015        |
| - 5% on ERV                           |       | (1,898)          | (1,088)                     | (495)          | (312)         | (207)                             | (4,000)      |
| -50bps on IY                          |       | 293              | 160                         | 69             | 43            | 35                                | 600          |
| +50bps on IY                          |       | (284)            | (158)                       | (68)           | (42)          | (25)                              | (577)        |

- excluding investment properties under development

| <b>31 December 2022</b>             |       | <b>Warehouse</b> | <b>Retail<br/>warehouse</b> | <b>Leisure</b> | <b>Office</b> | <b>High<br/>street<br/>retail</b> | <b>Total</b> |
|-------------------------------------|-------|------------------|-----------------------------|----------------|---------------|-----------------------------------|--------------|
| Fair value of<br>property portfolio | £'000 | 34,875           | 21,500                      | 9,875          | 7,600         | 4,060                             | 77,910       |
| Impact on valuation<br>of:          |       |                  |                             |                |               |                                   |              |
| +5% on ERV                          |       | 1,717            | 1,073                       | 492            | 380           | 207                               | 3,869        |
| - 5% on ERV                         |       | (1,719)          | (1,073)                     | (492)          | (380)         | (197)                             | (3,861)      |
| -50bps on IY                        |       | 249              | 157                         | 68             | 58            | 53                                | 585          |
| +50bps on IY                        |       | (245)            | (154)                       | (67)           | (57)          | (41)                              | (564)        |

**Notes (Unaudited) (continued)**  
**for the six months ended 30 June 2023**

**9. Investment property under development**

|   | <b>First half<br/>2023<br/>£'000</b> |
|---|--------------------------------------|
| Valuation at 1 January                        | -                                    |
| Additions                                     | <b>224</b>                           |
| Transfers from investment properties (note 8) | <b>281</b>                           |
| Gain on valuation                             | <b>70</b>                            |
| Valuation at period end                       | <b>575</b>                           |

The directors have used an external independent valuation of properties at 30 June 2023.

**10. Assets classified as held for sale**

|                      | <b>30 June<br/>2023<br/>£'000</b> | <b>31<br/>December<br/>2022<br/>£'000</b> |
|----------------------|-----------------------------------|---|
| Assets held for sale | -                                 | 6,750                                     |

At 31 December 2022 the directors were in the advanced stages of the potential sale of our Llantrisant property. The purchaser completed their due diligence in February 2023 and the sale was exchanged and completed on 8 February 2023. The gross sales proceeds were £7,850,000, £1,100,000 in excess of the valuation at 31 December 2022 and £899,000 in excess of cost.

**11. Interest bearing loans**

|   | <b>30 June<br/>2023<br/>£'000</b> | <b>31 December<br/>2022<br/>£'000</b> |
|---|-----------------------------------|---------------------------------------|
| Short-term bank loans due within one year                           | -                                 | -                                     |
| Medium-term loans   | <b>27,200</b>                     | 27,200                                |
| The medium-term bank loans comprise amounts falling due as follows: |                                   |                                       |
| Between one and two years   | -                                 | -                                     |
| Between two and five years  | <b>7,900</b>                      | 7,900                                 |
| Over five years   | <b>19,300</b>                     | 19,300                                |

The debt is secured on certain assets within the group's property portfolio.

Loan to value, which stood at 33.8% as at 30 June 2023 (December 2022 34.9%) is an alternative performance measure. It is defined as drawn debt divided by the fair value of the property portfolio (see note 8). Loan to value is considered by management to be a good indicator of the risk in the indebtedness of the business given the size of the property portfolio.

**Notes (Unaudited) (continued)****for the six months ended 30 June 2023****12. Share capital**

|  | <b>First half<br/>2023</b> | Full year<br>2022 |
|--|----------------------------|-------------------|
| Allotted, called up and fully paid ordinary shares of 25p each     |                            |                   |
| At 1 January   | <b>5,194,963</b>           | 5,183,699         |
| Issued in the year in connection with the Highcroft incentive plan | <b>11,696</b>              | 11,264            |
| At period end  | <b>5,206,659</b>           | 5,194,963         |

**13. Related party transactions**

Kingerlee Holdings Limited owns, through its wholly owned subsidiaries, 27.3% (2022 27.1%) of the company's shares and David Kingerlee (who was a director of the company until 1 August 2022, and a shareholder of the company throughout the period) and David Warlow (who was appointed a director of the company on 1 August 2022) are both directors and shareholders of Kingerlee Holdings Limited.

The group recharged professional fees of £14,052 to Kingerlee Holdings Limited in connection with additional fees connected with the group reporting requirement for the 2022 audit (2022 £13,080). The amount owed at 30 June 2023 was £nil (2022 £nil). All transactions were undertaken on an arm's length basis.

During the period £469,000 (2022 £465,000) of dividend was paid to the wholly owned subsidiaries of Kingerlee Holdings Limited in respect of their shareholdings.

During the period, on 30 March 2023, ordinary shares of 25p each were issued under the Highcroft Incentive Plan to the following directors of the company: Simon Gill (resigned 31 March 2023) 6,361 (2022 5,984) and Roberta Miles 5,335 (2022 5,280).

During the period the following dividends were paid to directors of the company, during their period of directorship, in respect of their shareholdings:

|  | <b>First half<br/>2023<br/>£'000</b> | First half<br>2022<br>£'000 |
|--|--------------------------------------|-----------------------------|
| Simon Gill (resigned 31 March 2023)      | -                                    | 5                           |
| David Kingerlee (resigned 1 August 2022) | -                                    | 30                          |
| Roberta Miles                            | <b>8</b>                             | 6                           |

**14. Net assets per share**

|                            | <b>First half<br/>2023</b> | First half<br>2022 | Full year<br>2022 |
|----------------------------|----------------------------|--------------------|-------------------|
| Net assets                 | <b>£56,254,000</b>         | £70,879,000        | £56,176,000       |
| Ordinary shares in issue   | <b>5,206,659</b>           | 5,194,963          | 5,194,963         |
| Basic net assets per share | <b>1080p</b>               | 1364p              | 1081p             |

**15. Fair value of financial instruments**

The fair values of loans and receivables and financial liabilities held at amortised cost were not materially different from book values.

**16. Capital commitments**

There were capital commitments of £158,000 at 30 June 2023 (2022 £19,000).