

RNS Number : 6065K

Highcroft Investments PLC

03 September 2021

Highcroft Investments PLC

Interim Report for the six months ended 30 June 2021

Key Highlights:

- *Gross rental income decreased 2% to £2,977,000 (2020 £3,044,000)
- *Net rental income decreased 2% to £2,735,000 (2020 £2,777,000)
- *89% occupancy in the property portfolio (2020 99%)
- *90% of Q1 rent, 96% of Q2 rent and 95% of Q3 rent, due to date, collected
- *Adjusted earnings per share reduced 21% to 28.3p (2020 35.9p)
- *Total earnings per share 118.8p (2020 51.4p loss)
- *Property valuation increased by 5.7% to £86,745,000 (December 2020 £82,060,000)
- *Net assets per share increased 7.3% to 1185p (June 2020 1095p, December 2020 1104p)
- *Loan to value 31.4% (June 2020 31.9%, December 2020 33.1%)

Dear Shareholder

I am writing to report our half year 2021 results. Whilst the effects of COVID-19 have continued to impact on our everyday life it would appear we are starting to see the situation improve slightly off the back of a hugely appreciated effort by the NHS to vaccinate as many of us as possible.

When considering the recent challenging circumstances, I am very pleased with our performance for the first half of 2021 with 93% of rent collected for the period and just a 2% fall in gross and net rental income. A very strong 5.7% increase in property valuation which in turn has led to an 7.3% increase in net assets per share to 1185p that takes the net asset value back above the pre-pandemic level (December 2019, 1175p per share). This 5.7% increase is made up of a 4.3% negative movement in our high street retail properties which now only account for 6.1% of our portfolio but a strong upward movement of 10% in our industrial portfolio. This overall movement compares favourably with the MSCI All property index of 2.9% for the same period and is underpinned by new leases at our St Austell property and one of our Wisbech units, one positive rent review. At the period end three of our properties were void, representing 11% of our rental income. We are negotiating a new lease on one of these units representing 4% of our rental income, and we are actively engaged in seeking new tenants for the others.

We continue to take a conservative view on debt and remain comfortable with our 31.4% LTV position at the period end.

During the period we exchanged contracts, with a conditional completion arrangement, for the sale of long-leasehold retail warehouse property in Andover let to Jewsons. I am pleased to report that the conditions were met last week, and we completed the transaction, after the period end, on 23 August 2021 generating gross sales proceeds of £3.55m, a premium of 9.2% over the valuation at 31 December 2020.

Dividend

I am pleased to report an interim property income distribution of 22p (2020 21p) per share, payable on 15 October 2021 to shareholders on the register at 17 September 2021 (with an ex-dividend date of 16 September 2021).

Outlook

Whilst there appears to be growing evidence that the COVID-19 pandemic is abating we, as a board, will continue to take a prudent view and monitor the situation closely. We will continue to work closely 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 as we start to return to some degree of normality again.

Charles Butler
Chairman
2 September 2021

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.

For further information, contact:

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Independent review report to Highcroft Investments PLC

We have been engaged by Highcroft Investments PLC ("the Company") to review the financial information for the six months ended 30 June 2021 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 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Financial Reporting Council and our Engagement Letter dated 07 July 2021. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Respective responsibilities of directors and auditor

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the United Kingdom and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority, which requires that the interim report must be prepared and presented in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial information in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the interim report does not give a true and fair view of the financial position of the parent and subsidiary entities as at 30 June 2021 and of its financial performance and its cash flows for the six months then ended, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the United

Kingdom and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Stephen Eames (Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

The Pinnacle

160 Midsummer Boulevard

Milton Keynes

MK9 1FF

2 September 2021

Notes:

(a) 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.

(b) 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 2021

		Unaudited			Unaudited		
		First half 2021			First half 2020		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Continuing operations							
Gross rental income		2,977	-	2,977	3,044	-	3,044

		Unaudited			Unaudited		
		First half 2021			First half 2020		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Bad debt provision		(127)	-	(127)	(195)	-	(195)
Property operating expenses		(115)	-	(115)	(72)	-	(72)
Net rental income		2,735	-	2,735	2,777	-	2,777
Valuation gains on investment property		-	5,275	5,275	-	600	600
Valuation losses on investment property		-	(590)	(590)	-	(5,115)	(5,115)
Net valuation gains/(losses) on investment property	7	-	4,685	4,685	-	(4,515)	(4,515)
Administrative expenses		(539)	-	(539)	(471)	-	(471)
Operating profit before net financing costs		2,196	4,685	6,881	2,306	(4,515)	(2,209)
Finance income		1	-	1	2	-	2
Finance expenses		(425)	-	(425)	(458)	-	(458)
Net finance costs		(424)	-	(424)	(456)	-	(456)
Profit/(loss) before tax		1,772	4,685	6,457	1,850	(4,515)	(2,665)
Income tax (charge)/credit	4	(304)	-	(304)	8	-	8
Total profit/(loss) and comprehensive income for the financial period		1,468	4,685	6,153	1,858	(4,515)	(2,657)

		Unaudited			Unaudited		
		First half 2021			First half 2020		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Basic and diluted earnings per share	6			118.8p			(51.4p)

Condensed consolidated interim statement of financial position (unaudited)

as at 30 June 2021

	Note	Unaudited 30 June 2021 £'000	Audited 31 December 2020 £'000
Assets			
Investment property	7	83,195	78,810
Total non-current assets		83,195	78,810
Current assets			
Trade and other receivables		1,616	1,692
Cash at bank and in hand		2,772	3,295
		4,388	4,987
Assets classified as held for sale	7	3,550	3,250
Total current assets		7,938	8,237

	Note	Unaudited 30 June 2021 £'000	Audited 31 December 2020 £'000
Total assets		91,133	87,047
Liabilities			
Current liabilities			
Interest bearing loan	8	(7,500)	-
Trade and other payables		(2,510)	(2,726)
Total current liabilities		(10,010)	(2,726)
Non-current liabilities			
Interest-bearing loans and borrowings	8	(19,700)	(27,200)
Total non-current liabilities		(19,700)	(27,200)
Total liabilities		(29,710)	(29,926)
Net assets		61,423	57,121
Equity			
Issued share capital		1,296	1,294
Share premium		117	51
Share based payment reserve		58	43
Other equity reserve		(121)	(53)
Revaluation reserve - property		16,803	12,814
Revaluation reserve - other		-	-
Capital redemption reserve		95	95
Realised capital reserve		28,995	28,995
Retained earnings		14,180	13,882

	Issue d share capital (note 10)	Share premium	Share based payments	Other equity reserve	Revaluation reserve property	Capital redemption	Realise d Capital	Retaine d earnings	Total
Non-distributable items recognised in income statement:									
Revaluation losses	-	-	-	-	(590)	-	-	590	-
Revaluation gains	-	-	-	-	5,275	-	-	(5,275)	-
Excess of cost over revalued amount taken to retained earnings	-	-	-	-	(696)	-	-	696	-
	-	-	-	-	3,989	-	-	(3,989)	-
Share award expensed	-	-	15	-	-	-	-	-	15
Total profit and comprehensive income for the period	-	-	-	-	-	-	-	6,153	6,153
At 30 June 2021	1,296	117	58	(121)	16,803	95	28,995	14,180	61,423

First half 2020 Unaudited	Issued share capital (note 10)	Share premium	Share based payment reserve	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	-	-	-	-	(5,115)	-	-	5,115	-
Revaluation gains	-	-	-	-	600	-	-	(600)	-
Excess of cost over revalued amount taken to retained earnings	-	-	-	-	1,098	-	-	(1,098)	-

	Issue d share capital (note 10)	Share premiu m	Share based payment t reserve	Other equity reserv e	Revaluatio n reserve property	Capital redemptio n	Realise d Capital	Retaine d earnings	Total
First half 2020 Unaudited					(3,417)			3,417	
Share award expensed			7						7
Loss and total comprehensiv e 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

Condensed consolidated interim statement of cashflows

for the six months ended 30 June 2021

	Unaudited First half 2021 £'000	Unaudited First half 2020 £'000
Operating activities		
Profit/(loss) before tax for the period	6,457	(2,665)
Adjustments for:		
Net valuation (gains)/losses on investment property	(4,685)	4,515
Share based payment expense	15	7
Finance income received	(1)	(2)
Finance expense paid	425	458
Operating cash flow before changes in working capital and provisions	2,211	2,313
Decrease/(increase) in trade and other receivables	76	(393)
(Decrease)/increase in trade and other payables	(216)	131
Cash generated from operations	2,071	2,051
Finance income received	1	2
Finance expense paid	(425)	(458)
Income tax (paid)/received	(304)	22
Net cash flows from operating activities	1,343	1,617
Investing activities		
Purchase of fixed assets - investment property	-	-
Sale of fixed assets - equity investments	-	-
Net cash flows from investing activities	-	-
Financing activities		

	Unaudited First half 2021 £'000	Unaudited First half 2020 £'000
Dividends paid	(1,866)	(1,397)
Repayment of bank borrowings	-	-
New bank borrowings	-	-
Net cash flows from financing activities	(1,866)	(1,397)
Net (decrease)/increase in cash and cash equivalents	(523)	220
Cash and cash equivalents at 1 January	3,295	1,559
Cash and cash equivalents at period end	2,772	1,779

Notes (Unaudited)

for the six months ended 30 June 2021

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 2 September 2021. The financial information for the period ended 30 June 2021 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 2020 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 2021. 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 2020.

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties. 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 2020.

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

The unaudited condensed consolidated interim 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. The loan that falls due for repayment within one year can be refinanced under the existing arrangements with Handelsbanken plc.

3. Segment reporting

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

In the first six months of 2021 the largest tenant represented 12% (2020 11%) and the second largest tenant represented 9% (2020 7%) of gross commercial property income for the period.

4. Income tax credit/(charge)

	First half 2021 £'000	First half 2020 £'000
Current tax:		
On revenue profits - prior year	304	8
current year	-	-
Total tax	304	8

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. The tax charge arising in 2021 in respect of the prior year relates to the write-off of £1.6million of the outstanding PID pool.

Notes (Unaudited) (continued)

for the six months ended 30 June 2020

5. Dividends

On 3 September 2021, the directors declared a property income distribution of 22p per share (2020 21p per share) payable on 15 October 2021 to shareholders registered at 17 September 2021.

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

	First half 2021 £'000	First half 2020 £'000
2020: final 27p and 2020 special 6p per ordinary share (2019 final 27p)	1,866	1,397

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £6,153,000 (2020 loss £2,657,000) and on 5,178,943 shares which is the weighted average number of shares in issue during the period ended 30 June 2021 (2020 5,169,695).

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 £1,468,000 (2020 £1,858,000) has been calculated.

	First half 2021 £'000	First half 2020 £'000
Earnings:		

	First half 2021 £'000	First half 2020 £'000
Basic earnings	6,153	(2,657)
Adjustments for:		
Net valuation (gains)/losses on investment property	(4,685)	4,515
Adjusted earnings	1,468	1,858
Per share amount:		
Earnings per share (unadjusted)	118.8p	(51.4p)
Adjustments for:		
Net valuation (gains)/ losses on investment property	(90.5p)	87.3p
Adjusted earnings per share	28.3p	35.9p

Notes (Unaudited) (continued)

for the six months ended 30 June 2021

7. Investment property

	First half 2021 £'000	Full year 2020 £'000
Valuation at 1 January	82,060	86,710
Gain/(loss) on revaluation	4,685	(4,650)
Valuation at period end	86,745	82,060
Less property held for sale categorised as current asset	(3,550)	(3,250)

	First half 2021 £'000	Full year 2020 £'000
Property categorised as fixed asset	83,195	78,810

The directors have used an external independent valuation of properties at 30 June 2021 which has been carried out consistently with the annual valuation.

8. Interest bearing loans

	30 June 2021 £'000	31 December 2020 £'000
Short-term bank loans due within one year	7,500	-
Medium-term loans	19,700	27,200
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	-	7,500
Between two and five years	-	-
Over five years	19,700	19,700

The debt is secured on certain assets within the group's property portfolio. The group has a facility in place with its primary banker to enable it to re-finance the loan falling due in May 2022 on similar terms to the existing loans.

9. Share capital

	First half 2021	Full year 2020
Allotted, called up and fully paid ordinary shares of 25p each		

	First half 2021	Full year 2020
At 1 January	5,175,175	5,167,240
Issued in the year in connection with the Highcroft incentive plan	8,524	7,935
At period end	5,183,699	5,175,175

Notes (Unaudited) (continued)

for the six months ended 30 June 2021

10. Related party transactions

Kingerlee Holdings Limited owns, through its wholly owned subsidiaries, 27.2% (2020 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, the previous registered office of the company of £1,000 (2020 £7,000). The amount owed at 30 June 2021 was £nil (2020 £nil). In addition, the group recharged professional fees of £12,000 to Kingerlee Holdings Limited in connection with additional fees connected with the group reporting requirement for the 2020 audit. The amount owed at 30 June 2021 was £nil (2020 £nil). All transactions were undertaken on an arm's length basis.

During the period £507,000 (2020 £380,000) of dividend was paid to the wholly owned subsidiaries of Kingerlee Holdings Limited in respect of their shareholdings.

During the period ordinary shares of 25p each were issued under the Highcroft incentive plan to the following directors of the company: Simon Gill 4,534 (2020 4,309) and Roberta Miles 3,990 (2020 3,626).

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

	First half 2021 £'000	First half 2020 £'000
Simon Gill	3	1
David Kingerlee	32	24
Roberta Miles	5	3

11. Net assets per share

	First half 2021	First half 2020	Full year 2020
Net assets	£61,423,000	£56,674,000	£57,121,000
Ordinary shares in issue	5,183,699	5,175,175	5,175,175
Basic net assets per share	1185p	1095p	1104p

12. 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.

13. Post balance sheet events

After the period end the group completed on the sale of its long-leasehold investment property in Andover let to Jewsons, for sales proceeds of £3,550,000, its valuation at 30 June 2021 and 9.2% above its valuation at 31 December 2020.

Statement of principal risks and uncertainties

The directors consider that there have been no material changes to the group's principal risks as set out in detail on pages 30 and 31 of the annual report and accounts for the year ended 31 December 2020. These principal risk areas can be summarised as:

External risks	Internal risks
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Macro-economic outlook	Business strategy
Political and regulatory outlook	Key personnel
Occupier demand and tenant default	
Commercial property investor demand	
Availability and cost of finance and debt covenant requirements	

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 2021 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 2021

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