HIGHCROFT INVESTMENTS PLC

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2005

Report and Financial Statements 31 December **2005**

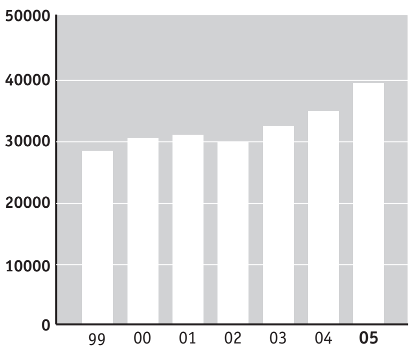
“Net asset value has risen 13.5% to 758p and we have increased dividends in respect of 2005 by 8.1% over 2004. We look forward to the challenges of 2006.”

– Gavin Kingerlee, *Chairman*

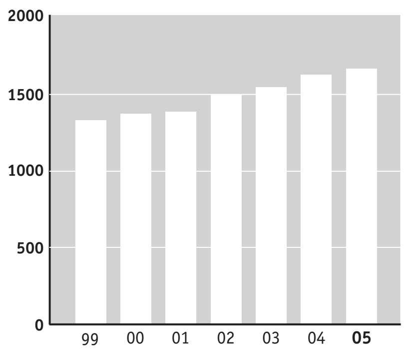
Contents

- Gross property income up 15.0% to £1,917,000
- Operating profit after tax (excluding capital gains and losses) up 12.8% to £1,366,000
- Basic earnings per share (including capital gains and losses) up 81.1% to 102.3p
- Adjusted earnings per share (excluding capital gains and losses) up 12.8% to 26.4p
- Net asset value per share up 13.5% to 758p
- Total dividends up 8.1% to 12.65p per share
- Final dividend of 8.30p payable on 7 June 2006
- Annual General Meeting on Wednesday 24 May 2006

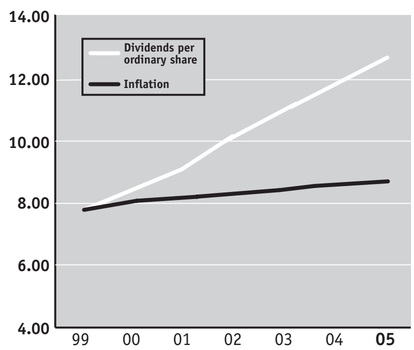
Total net assets
£'000



Operating profit before taxation
£'000



Dividend growth compared to inflation
pence



"Net asset value has risen 13.5% to 758p and we have increased dividends in respect of 2005 by 8.1% over 2004. We look forward to the challenges of 2006."

The directors are pleased to present the seventy-eighth Annual Report together with the audited financial statements of the group, our first to be prepared under International Financial Reporting Standards.

Strategy

The broad objectives of the group remain to enhance shareholder value via a combination of increasing asset value, increasing profits and increasing dividends. The strategy by which the board of Highcroft seeks to achieve these objectives, and our commentary thereon, is as follows:

- *To continue the focus on the commercial property portfolio.*
  At the end of 2005, 70% of our investments were held in commercial property (2004 70%); 6% were held in residential property (2004 8%) and 24% in listed investments (2004 22%).

- *To continue to reduce the residential property portfolio when opportunities arise.*
  Two residential properties became vacant and were disposed of in 2005.

- *To have such a proportion of funds in listed investments which maintains a lower risk profile than would attach to a portfolio which was fully real estate.*
  The stock market rose some 18.1% during 2005 and we made several disposals from the listed investment portfolio showing a net gain in the income statement. During the course of 2005 there was a net investment in the listed investment portfolio of £283,000.

- *To seek property development opportunities from within our own property portfolio.*
  The directors looked at a small number of development opportunities from within the current property portfolio and are undertaking a development to add two residential units to the commercial property in Cirencester.

- *To seek, though not exclusively, new property acquisitions with development opportunities where the development risks can be counter-balanced by income from the same investment.*
  Several opportunities for commercial investment were investigated this year, some carried development opportunities and some did not. In some cases we made formal offers but none of the opportunities were available at prices we felt could give a reasonable financial performance in the medium term. In January 2006, our bid for a commercial property in Staines was successful and we are actively pursuing the opportunity for enhancing the investment by adding a number of residential units.

- *To use medium term gearing but to a level which would be perceived as cautious by comparison with other real estate businesses.*
  The medium term funding of the property portfolio at 31 December 2005 was £1,500,000 (2004 £1,568,000). The gearing ratio (i.e. medium term funding as a proportion of total equity) at 31 December 2005 was 3.8% (2004 4.5%).

The two portfolios have generated sufficient income to be able to announce a further significant dividend increase in respect of 2005, from 11.70p to 12.65p, a rise of 8.1%. Together with an increased net asset value per share up 13.5% to 758p from 668p, I am happy to report that we have met our objectives for 2005.

Financial results - operating activities

Operating profit before taxation (excluding capital gains and losses) increased to £1,825,000 from £1,624,000 in 2004, an increase of 12.4%. Gross income was £2,256,000 as compared with £1,952,000 in 2004. Gross property income rose from £1,667,000 to £1,917,000, an increase of 15.0%, driven by the first full year of income from the recent investments at Cirencester and Southampton and also by a relatively large number of rent reviews.

Financial results - capital activities

During 2005, there were no new investments in property assets (2004 £4,089,000) and £958,000 was invested in equities (2004 £1,016,000). The net proceeds from property disposals during the year amounted to £469,000 (2004 £246,000) while equity disposals generated £675,000 (2004 £1,249,000).

The net gains on these disposals amounted to £39,000 (2004 £48,000), comprising £8,000 of gains on property disposals and £31,000 of gains on disposal of investments. The net gain after taxation of £32,000 (2004 £42,000) was transferred to realised capital reserve.

Because of the relatively high revaluation gains for investment property and equity investments, the earnings per share rose from 56.5p in 2004 to 102.3p in 2005. Our adjusted earnings per share which takes out the effect of capital gains and losses rose from 23.4p in 2004 to 26.4p in 2005.

Property

The ten largest property holdings in the portfolio are listed on page 28 and they represent 69% of the value of the investment property portfolio of the group at 31 December 2005.

The property valuation showed a rise from £30.5 million to £33.5 million. Those properties that remained in the portfolio throughout the period show a rise in value equivalent to 11.3% (2004 5.8%). There are 20 (2004 20) commercial properties in the portfolio with an average value of £1,548,000 (2004 £1,376,000). There are 13 residential properties in the portfolio (2004 15). The average value of these residential investments is £192,000 (2004 £200,000).

Our commercial portfolio is let to tenants, many of them blue chip, with good covenants and the current rental income is from leases which expire as follows:

	2005	2004
In the next five years	13%	17%
In six to ten years	30%	31%
In eleven to fifteen years	37%	35%
After fifteen years	20%	17%

In January 2006 we purchased for £2,825,000 a property located in Staines comprising three retail units, let to Jessops, Millets and a local pet store, and with office accommodation above, let to Manpower plc. The current income is £153,500 per annum. There is also planning permission, obtained by the previous owner, to extend the property to include nine residential units. We have begun to pursue this opportunity and look forward to the results that it will bring.

Listed investments

2005 was a very good year for equity markets and the All-Share index was up from 2,410 to 2,847 a rise of 18.1%. Those listed investments that remained in our portfolio throughout the period showed a rise in value of 18.3% (2004 12.0%). We have regularly reviewed the portfolio in order to make prudent and tax efficient disposals while protecting our dividend income stream.

Board appointment

On 1 January 2006, Christopher Clark joined our board bringing a broad business experience from other listed companies and a particular expertise in equities. We look forward to working with him in what we expect to be a happy and fruitful relationship.

Transition to International Financial Reporting Standards (IFRS)

This is the first year that we have reported in compliance with International Financial Reporting Standards as adopted by the European Union. The Interim Report for 2005 showed the effect of the transition and we hope that shareholders will soon become familiar with the new format. Most significantly, the old-style profit and loss account has been replaced by an income statement which paradoxically includes the capital revaluations of the two portfolios.

Summary

The property portfolio valuation has risen 11.3%, on a like for like basis, having realised £469,000 in sales. Our equity portfolio valuation has risen by 18.3%, on a like for like basis, having invested net cash of £283,000. In addition we have generated net income after tax of £1,366,000. As a result we are pleased to report that the net asset value per share has risen by 13.5% to 758p (2004 668p). This is after taking into account, for the first time under International Financial Reporting Standards, the deferred taxation related to our revaluation surpluses. Total equity was £39,164,000 (2004 £34,497,000).

The continuing increase in income and operating profits enables us to meet our target of an increase in dividends well above the rate of inflation. Proposed dividends for 2005 are up 8.1% on 2004. Basic earnings per share, which take account of capital activities and revaluations, are up 81.1% to 102.3p per share and adjusted earnings per share, adjusted to take out the effect of capital activities and revaluations, are up 12.8% to 26.4p per share.

We have already made the acquisition in Staines noted above but will continue to look for good quality property acquisitions which fit well with our property portfolio, helping us to meet our broad strategic objectives. We have completed the sale of a small commercial property in early 2006, and expect in the near future to dispose of our remaining commercial property valued at less than half a million pounds. We also have a vacant residential property which is being marketed through local agents. Our position on the listed investments portfolio is likely to remain neutral but we continue to try to take advantage of opportunities and the progress of the market so that the combined portfolio has a good balance of risk and reward.

The property market is strong, but perhaps likely to show slower progress than we have seen in the last few years, while equity markets look to have a promising year ahead. The business has a solid balance sheet and we are well placed to pursue our strategy successfully.

I look forward to meeting with shareholders at our AGM on 24 May 2006 for what will be my last AGM as chairman as I shall be retiring from the board in October 2006. I am delighted to say that the board has voted John Hewitt to be my successor following my retirement and I feel sure that shareholders will be very happy with this appointment.

G J Kingerlee

Chairman 22 March 2006

APPLICATION OF PRINCIPLES

The company has applied the principles of good governance contained in the Combined Code 03 (Principles of Good Governance and Code of Best Practice) introduced for listed companies for reporting periods commencing on or after 1 November 2003, except as noted in the Compliance Statement below.

Compliance

The company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code 03 except that no performance related payments were made to directors, which is not in accordance with Code provision B.1.1.

Directors

The company supports the concept of an effective board leading and controlling the company. The board is responsible for:

- approving company objectives, strategy and policies
- business planning
- review of performance
- risk assessment
- dividends
- appointments

The board meets at least six times a year and has a schedule of matters specifically reserved for its decision. Executive directors are responsible for the implementation of strategy and policies and the day-to-day decision making and administration.

During 2005 the number of board and committee meetings with individual attendances was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	6	3	1	1
Attendance:				
G J Kingerlee	5	3	1	1
J Hewitt	6	3	1	1
R N Stansfield	6	2	1	1
J C Kingerlee	6	Not applicable	Not applicable	Not applicable
D Bowman	6	3 (partially)	Not applicable	Not applicable
D H Kingerlee	5	Not applicable	Not applicable	Not applicable

The board receives appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and independent professionals at the company's expense. Appropriate training is available for new directors and other directors as necessary.

The board had six directors during 2005 but since the appointment of Christopher Clark on 1 January 2006 now has seven of which three are executive directors and four are non-executive directors whom the board has determined are independent. The chairman is Gavin Kingerlee, the senior independent director is John Hewitt and the chief executive is Jonathan Kingerlee. The board members' biographies are on page 7.

The independent non-executive directors bring additional experience and knowledge and are independent of management and any business or other relationship that could interfere with the exercise of their independent judgement. This provides a balance whereby an individual or small group cannot dominate the board's decision-making.

The directors are aware that non-executive directors who were previously executive directors are not normally regarded as being independent in this context. They have reviewed the case of Gavin Kingerlee, who was previously chief executive, and have concluded that shareholders can be satisfied, as the directors are, of Gavin Kingerlee's independence in his role as non-executive director and chairman of this company. Gavin Kingerlee is also a director and shareholder of Kingerlee Holdings Limited, a major shareholder. In the opinion of the directors, none of these facts impact upon his willingness and ability to serve the board nor detract from his ability to participate in its decision making processes with impartiality and independence of mind. In common with all directors, he is required to declare to the board any relevant facts which may affect his actual or perceived independence in respect of any issue before the board.

All directors are subject to re-election every three years and, on appointment, at the first AGM after appointment. The board has established a separate nomination committee, comprising the non-executive directors responsible for making recommendations for appointments to the board. The committee met with candidates for a non-executive position and as a result Christopher Clark was appointed on 1 January 2006.

Formal procedures appropriate to the size of the business have been established for performance evaluation of the board and its committees. They include objective-setting and review with the use of an external facilitator.

Directors' remuneration

The directors' remuneration report is on page 9. It sets out the company's policy and the full details of all elements of the remuneration package of each individual director.

Relations with shareholders

We have no institutional shareholders. However, the company values the views of its shareholders and recognises their interest in the company's strategy and performance, board membership and quality of management. The AGM is used to communicate with private investors and documents are sent to shareholders at least 20 working days before the meeting. The chairman, in his capacity as Chairman of the Audit and Remuneration Committees is available to answer relevant questions. Separate resolutions are proposed on each substantially separate issue so that they can be given proper consideration and there is a resolution to receive and consider the annual report and financial statements. The company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Accountability and audit

The board presents a balanced and understandable assessment of the company's position and prospects in all interim and other price-sensitive public reports, reports to regulators and information required to be presented by statute. The responsibilities of the directors as regards the financial statements are described on page 11, and that of the auditors on page 12. A statement on going concern appears on page 8.

The Audit Committee of the board comprises all the non-executive directors and is chaired by Gavin Kingerlee. The committee meets not less than three times a year to review the scope and findings of the auditors' work on audit and non-audit issues, the interim and annual reports prior to their publication, the application of the company's accounting policies and any changes to the financial reporting requirements. The Audit Committee ensures that the external auditors are independent via the segregation of audit-related work from other accounting functions and measures applicable fees with similar auditors. The Audit Committee also plays an important part in reviewing the company's systems of internal control which are described below.

Internal control

The board is responsible for establishing and maintaining a sound system of internal control and for reviewing its effectiveness. The system of internal control is designed to meet the particular needs of the group and the risks to which it is exposed, and by its very nature provide reasonable, but not absolute assurance against material misstatement or loss. The internal control system was in place for the period under review up to the date of approving the accounts. There is an ongoing process to identify, evaluate and manage the risks facing the business. The entire system of internal control was reviewed during the year. This review has been undertaken in accordance with guidance published by the Institute of Chartered Accountants in England and Wales.

The key procedures, which exist to provide effective internal control, are as follows:

- clear limits of authority;
- annual revenue, cash flow and capital forecasts, reviewed regularly during the year, monthly monitoring of cash flow and capital expenditure reported to the board, quarterly and half year revenue comparisons with forecasts;
- financial controls and procedures;
- clear guidelines for capital expenditure and disposals, including defined levels of authority;
- two-monthly meetings of the executive directors to authorise share purchases and sales;
- an audit committee, which approves audit plans and published financial information and reviews reports from external auditors arising from the audit and dealing with significant control matters raised;
- regular board meetings to continuously monitor any areas of concern.

The board has considered the need for an internal audit function but has decided that the size of the company does not justify it at present. However, it will keep the decision under annual review.

The board has reviewed the operation and effectiveness of the group's system of internal control, including financial, operational and compliance controls and risk management for the financial year ended 31 December 2005 and the period up to date of approval of the financial statements.

By Order of the Board

D Bowman

Company Secretary

22 March 2006

Company number	224271
Directors	Gavin Kingerlee *(Non-executive Chairman)* Christopher Clark, BA FCIS *(Non-executive)* John Hewitt, MA *(Non-executive)* Richard Stansfield, BSc FRICS *(Non-executive)* Jonathan Kingerlee *(Chief Executive)* David Bowman, BA FCA *(Finance)* David Kingerlee *(Executive)*
Company secretary	David Bowman, BA FCA
Independent auditor	Grant Thornton UK LLP Registered Auditors Chartered Accountants 1 Westminster Way Oxford OX2 0PZ
Bankers	Lloyds TSB Bank PLC Black Horse House Wallbrook Court North Hinksey Lane Botley Oxford OX2 0QS
Corporate finance advisers	Charles Stanley Securities 25 Luke Street London EC2A 4AR
Property advisers	King Sturge Berkeley House 9 Milton Road Swindon SN1 5JE
Independent valuers	Jones Lang LaSalle 22 Hanover Square London W1A 2BN
Registrars	Capita Registrars Plc The Registry 34 Beckenham Road Beckenham BR3 4TU
Solicitors	Clarks One Forbury Square The Forbury Reading RG1 3EB
Registered office	Thomas House Langford Locks Kidlington Oxon OX5 1HR

Principal activities

Highcroft Investments PLC is a group that invests in property and listed investments.

Results and dividends

The profit for the financial year, under IFRS, amounted to £5,287,000 compared with £2,919,000 for 2004. Included in the profit for the financial year are realised gains and revaluation gains on assets after taxation of £3,922,000 (2004 £1,708,000). In accordance with the company's articles of association, these have been transferred to capital reserves. The profit available for distribution was £1,366,000 (2004 £1,211,000).

An interim dividend of 4.35p per share was paid on 28 October 2005 and a final dividend of 8.30p per share will be recommended for approval at the AGM and for payment on 7 June 2006. The total ordinary dividend of 12.65p (2004 11.7p) payable per share will absorb £654,000 of the profit available for distribution, leaving £712,000 retained.

For the review of the business, see the Chairman's statement on page 2.

Directors

The directors are as follows:

Gavin Kingerlee: Gavin Kingerlee, 69, has been a director of the company since 1970. He was chief executive from 1993 to 2001 and became chairman in 2003. He is also a director of the Kingerlee Group of companies and SMT (London) Limited and was previously a founding director of Aurelia Plastics Limited.

Christopher Clark: Christopher Clark, 63, was appointed as an independent non-executive director on 1 January 2006. He is also a board member of Advance Focus Fund Limited, of which he is chairman, and of William Ransom & Son plc. He previously worked as a stockbroker and is a Fellow of the Chartered Institute of Secretaries.

John Hewitt: John Hewitt, 60, worked in the City of London in stockbroking for over 20 years where he became managing director of Scrimgeour Vickers. He now splits his time between advising local and international businesses and organisations, and charitable fund-raising in the medical and academic world. He was appointed as an independent non-executive director in 1999.

Richard Stansfield: Richard Stansfield, 48, is a chartered surveyor and director of Savills commercial department in Oxford and was previously a partner of Smith-Woolley. Each firm is a multi discipline practice of property consultants. He was appointed as an independent non-executive director in 2002.

Jonathan Kingerlee: Jonathan Kingerlee, 45, became an executive director in 1995 and chief executive in 2001. He is also chief executive of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests.

David Bowman: David Bowman, 50, became finance director in 2001, having been company secretary since 1993. He is also a consultant for Practical Financial Management and a non-executive director of Traidcraft PLC and of Traidcraft Exchange Limited.

David Kingerlee: David Kingerlee, 44, became an executive director in 1996. He is also an executive director and company secretary of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests.

All of the directors listed below served on the board throughout the year, with the exception of Christopher Clark who was appointed on 1 January 2006. Richard Stansfield and David Kingerlee retire by rotation and, being eligible, offer themselves for re-election.

Interests of the directors in the shares of the company

The beneficial and other interests of the directors, and their families, in the shares of the company at 1 January 2005 and at 31 December 2005 were as follows:

	31 December 2005		1 January 2005	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
G J Kingerlee	**165,150**	**–**	170,150	–
J Hewitt	**10,000**	**–**	10,000	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**92,096**	**–**	92,096	–
D Bowman	**16,660**	**91,448**	16,660	86,448
D H Kingerlee	**168,200**	**74,300**	168,200	69,300

There is no duplication of directors' shareholdings, except in respect of:

- 74,300 of the non-beneficial holdings of David Bowman and David Kingerlee;
- 3,430 of the beneficial and non-beneficial holdings of David Bowman;
- 74,300 of the beneficial and non-beneficial holdings of David Kingerlee.

There were no changes in the interests of the directors in the period from 1 January 2006 to 22 March 2006.

Substantial shareholders

As at 22 March 2006 the following notifications of interests in three per cent or more of the company's ordinary share capital in issue at the date of this report had been received:

		Number of shares	
		Beneficial	Non-beneficial
Kingerlee Holdings Limited	(24.5%)	1,264,400	–
D G & M B Conn and associates	(16.2%)	835,635	–
D H Kingerlee	(3.3%)	168,200	74,300
G J Kingerlee	(3.2%)	165,150	–

Going concern

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Policy on the payment of creditors

The group normally agrees payment terms with suppliers as part of the establishment of a contract. It is the group's normal practice to pay its suppliers before the end of the month following the month of supply. This policy applies at the present time and applied in 2005 when average creditor days were 27 (2004 26).

Donations

Donations to charitable organisations amounted to £3,600 (2004 £3,600). There were no political donations.

Financial instruments

Information on financial instruments is included in note 21.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with Section 385 of the Companies Act 1985.

By Order of the Board

D Bowman

Company Secretary

22 March 2006

The information contained in this report is not subject to audit except where specified.

Composition of the Remuneration Committee

The members of the committee are Gavin Kingerlee (Chairman), Christopher Clark, John Hewitt and Richard Stansfield. None of the committee has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

Terms of reference

The approved terms of reference of the Remuneration Committee are as follows:

The Remuneration Committee is established in order to determine the company's policy on executive directors' remuneration and the specific remuneration packages for each of the executive directors, including any pension rights and any compensation payments.

The Remuneration Committee consults the chief executive about their proposals relating to the remuneration of other executive directors but he is not present for the discussion of his own remuneration. The committee has access to advice from independent professionals at the company's expense.

Policy

Executive directors' remuneration is reviewed annually having regard to the work done and the profits of the business but without a fixed relationship between profits and pay. Executive directors are given service contracts not longer than three years and with no provision for compensation payments on termination, but in any event having a notice period by either party of six months. The contracts of directors in office have expiry dates as follows, subject to shareholders re-election at annual general meetings when appropriate:

	Start date	Expiry date
G J Kingerlee	1 July 2004	10 October 2006
C J Clark	1 January 2006	30 June 2009
J Hewitt	1 July 2005	30 June 2008
R N Stansfield	1 January 2003	30 June 2006
J C Kingerlee	1 July 2005	30 June 2008
D Bowman	1 July 2004	30 June 2007
D H Kingerlee	1 July 2003	30 June 2006

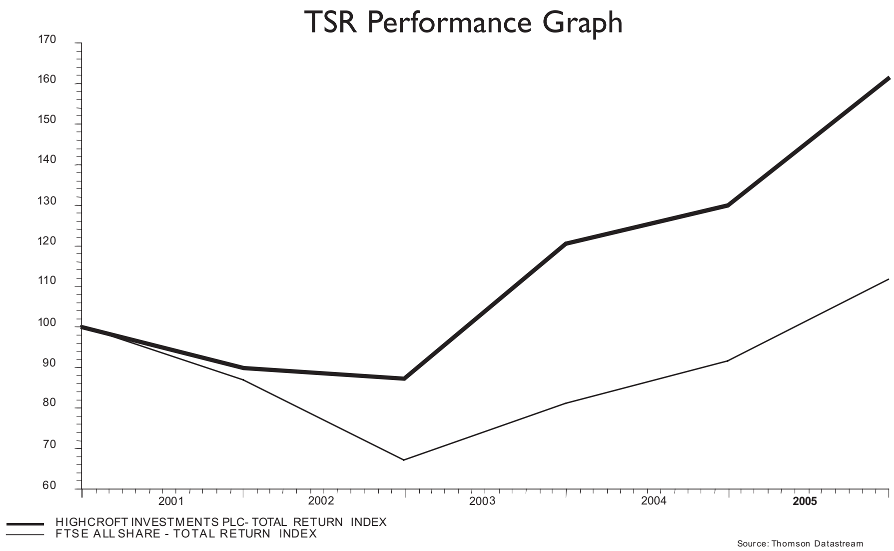
The remuneration of the non-executive directors is determined by the whole board.

Directors' interests

Directors' interests are shown in the Report of the Directors on page 7. They are taken from the company's Register of Directors' Interests which is open to inspection, by appointment, at the Registered Office.

Performance Graph

The graph below shows Highcroft's Total Shareholder Return (TSR) performance compared to the All Share index over the last five years. TSR over the last five years is defined as share price growth plus reinvested dividends. The All Share index provides a basis for comparison as a relevant equity index of which Highcroft is a constituent member.



Directors' remuneration (audited)

	2005	2004
	£	£
Gavin Kingerlee	**12,500**	12,500
John Hewitt	**7,500**	7,500
Richard Stansfield	**8,295**	8,650
Jonathan Kingerlee	**31,000**	29,500
David Bowman	**27,525**	27,010
David Kingerlee	**16,250**	15,750
	103,070	100,910

These figures, except as stated, represent salaries earned as directors during the relevant financial year. There were no benefits in kind and no performance related payments were made. The group does not have a pension scheme for directors nor an executive share option scheme or other long term incentive plan for directors.

G J Kingerlee

Chairman of the Remuneration Committee 22 March 2006

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and international financial reporting standards as adopted by the European Union.

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in operational existence for the foreseeable future.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements are prepared in accordance with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that the accounting policies adopted in the preparation of the financial statements are appropriate to the group, have been consistently applied and are supported by reasonable and prudent judgements and estimates. All applicable accounting standards have been followed.

By Order of the Board

D Bowman

Company Secretary

22 March 2006

We have audited the group financial statements of Highcroft Investments PLC for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, consolidated statement of cash flows and notes 1 to 22. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2005 and the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, report of the directors, the directors' remuneration report, the corporate governance statement and the unaudited supplementary information detailed in the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profits for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

GRANT THORNTON UK LLP

Registered Auditors
Chartered Accountants
Oxford

22 March 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Gross rental income		**1,917**	1,667
Property operating expenses		**(125)**	(127)
Net rental income		**1,792**	1,540
Realised gains on investment property		**44**	9
Realised losses on investment property		**(36)**	–
Net realised gain on investment property		**8**	9
Valuation gains on investment property		**3,464**	1,545
Valuation losses on investment property		**(65)**	(310)
Net valuation gains on investment property		**3,399**	1,235
Dividend income		**339**	285
Gains on investments		**1,748**	1,042
Losses on investments		**(142)**	(139)
Net investment income		**1,945**	1,188
Administration expenses	3	**(222)**	(205)
Net operating profit before net finance expenses		**6,922**	3,767
Finance income		**8**	21
Finance expenses		**(92)**	(17)
Net finance expenses		**(84)**	4
Profit before tax		**6,838**	3,771
Income tax expense	5	**(1,551)**	(852)
Profit for the year	15	**5,287**	2,919
Basic earnings per share	7	**102.3p**	56.5p

All operations are continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2005

	Note	The Group 2005 £'000	2004 £'000
Assets			
Non-current assets			
Investment property	8	**33,461**	30,523
Equity investments	9	**10,620**	8,731
Total non-current assets		**44,081**	39,254
Current assets			
Trade and other receivables	10	**301**	369
Cash and cash equivalents		**725**	–
Total current assets		**1,026**	369
Total assets		**45,107**	39,623
Liabilities			
Current liabilities			
Bank overdraft		**–**	146
Interest-bearing loans and borrowings		**71**	69
Current corporation tax		**358**	278
Trade and other payables	11	**725**	679
Total current liabilities		**1,154**	1,172
Non-current liabilities			
Interest-bearing loans and borrowings	12	**1,429**	1,499
Deferred tax liabilities	13	**3,360**	2,455
Total non-current liabilities		**4,789**	3,954
Total liabilities		**5,943**	5,126
Net assets		**39,164**	34,497
Equity			
Issued share capital	14	**1,292**	1,292
Revaluation reserve – property	15	**8,734**	6,322
– other	15	**3,902**	2,933
Capital redemption reserve	15	**95**	95
Realised capital reserve	15	**15,306**	14,766
Retained earnings	15	**9,835**	9,089
Total equity		**39,164**	34,497

These financial statements were approved by the Board of Directors on 22 March 2006.

G J Kingerlee

J C Kingerlee

Directors

The accompanying notes form an integral part of these financial statements.

	Note	2005 £'000	2004 £'000
Operating activities			
Profit for the year		**5,287**	2,919
Adjustments for:			
Net valuation gains on investment property		**(3,399)**	(1,235)
Profit on disposal of investment property		**(8)**	(9)
Gains on investments		**(1,606)**	(903)
Finance income		**(8)**	(4)
Finance expense		**92**	21
Income tax expense		**1,551**	852
Operating cash flow before changes in working capital and provisions		**1,909**	1,641
Decrease in trade and other receivables		**68**	163
Increase in trade and other payables		**46**	58
Cash generated from operations		**2,023**	1,862
Finance income		**8**	4
Finance expenses		**(92)**	(15)
Income taxes paid		**(564)**	(451)
Cash flows from operating activities		**1,375**	1,400
Investing activities			
Purchase of non-current assets – investment property		**–**	(4,089)
– equity investments		**(958)**	(1,016)
Sale of non-current assets – investment property		**469**	246
– equity investments		**675**	1,249
Cash flows from investing activities		**186**	(3,610)
Financing activities			
New medium term loan		**–**	1,568
Loan repayments		**(70)**	–
Dividends paid		**(620)**	(583)
Cash flows from financing activities		**(690)**	985
Net increase in cash and cash equivalents		**871**	(1,225)
Cash and cash equivalents at 1 January 2005	16	**(146)**	1,079
Cash and cash equivalents at 31 December 2005	16	**725**	(146)

1 Significant accounting policies

Highcroft Investments PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 31 December 2005 comprise the company and its subsidiary, together referred to as the group.

a Basis of preparation

The financial statements are presented in pounds sterling, rounded to the nearest thousand. The consolidated financial statements of the group have been prepared under the historical cost convention, except that investment property and equity investments are stated at their fair value, and in accordance with International Financial Reporting Standards as adopted by the European Union. The transition to International Financial Reporting Standards has been made in accordance with International Financial Reporting Standard 1 "First-time adoption of International Financial Reporting Standards".

The transition to International Financial Reporting Standards has resulted in a number of changes in the reported financial statements, notes thereto and accounting principals compared to the previous annual report.

1) Dividend payments are now dealt with when paid as a change of equity in the revenue reserve. Final dividends proposed are not recognised as a liability. This is to comply with IAS 10, "Events after the Balance Sheet Date".

2) The deferred tax which would be payable if revalued assets were sold at their revalued amount is now provided for on the balance sheet and not simply noted as a contingent liability. Changes in the provision are recognised in the Income Statement. This is to comply with IAS 12, "Income Taxes".

3) All gains and losses and changes in the value of financial assets are recognised in the Income Statement. This is to comply with IAS 39, "Financial Instruments".

4) All gains and losses and changes in the value of investment property are recognised in the Income Statement. This is to comply with IAS 40, "Investment Property".

b Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary, Rodenhurst Estates Limited, which are both made up to 31 December 2005. Profits or losses on intra-group transactions are eliminated in full.

c Rental income

Rental income from investment property is recognised in the income statement on a straight line basis over the term of the lease.

d Dividend income

Dividend income relating to exchange-traded equity investments is recognised in the income statement on the ex-dividend date. In some cases, the group may receive dividends in the form of shares rather than cash. In such cases, the group recognises the dividend income for the amount of cash dividend alternative with a corresponding increase in cost of investments.

e Interest income

Interest income and expense is recognised in the income statement as they accrue. Interest income is recognised on a gross basis, including withholding tax, if any.

f Expenses

All expenses are recognised in the income statement on an accrual basis.

g Income tax

Income tax on the profit and loss for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

h Investment property

Investment property is that which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every six months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Acquisitions and disposals are recognised on the date of completion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

i Financial assets

The directors have adopted the fair value option for its qualifying financial assets on the basis that to do so is in accordance with its documented investment strategy.

j Trade and other receivables

Trade and other receivables are recognised at fair value on initial recognition and subsequently at amortised cost. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

k Trade and other payables

Trade and other payables are recognised at fair value on initial recognition and subsequently at amortised cost.

l Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable costs. Thereafter the carrying amount is stated at amortised cost obtained using the effective interest rate method.

m Issued share capital

Ordinary shares are classified as equity because they do not contain an obligation to transfer cash or another financial asset. Dividends are recognised as a liability in the period in which they are payable.

n Segment reporting

A segment is a distinguishable component of the group that is engaged in generating income and expenses (business segment) which is subject to risks and rewards that are different from those of other segments. The business segment is considered to be the primary reporting segment.

2 Segment reporting

The business segment reporting format reflects the group's management and internal reporting structure.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The group is comprised of the following main business segments:

- commercial property comprising retail outlets, offices and warehouses.
- residential property comprising mainly single-let houses.
- financial assets comprising exchange-traded equity investments.

	2005	2004
	£'000	£'000
Commercial property		
Gross income	**1,833**	1,586
Profit for the year	**3,774**	1,867
Assets	**31,951**	27,856
Liabilities	**3,657**	3,098
Residential property		
Gross income	**84**	81
(Loss)/profit for the year	**(19)**	112
Assets	**2,521**	3,019
Liabilities	**621**	738
Financial assets		
Gross income	**339**	285
Profit for the year	**1,532**	940
Assets	**10,635**	8,748
Liabilities	**1,663**	1,290
Total		
Gross income	**2,256**	1,952
Profit for the year	**5,287**	2,919
Assets	**45,107**	39,623
Liabilities	**5,941**	5,126

3 Administrative expenses

	2005	2004
	£'000	£'000
Directors and employees (note 4)	**112**	110
Auditor's remuneration:		
Audit services	**19**	13
Taxation	**10**	6
Other	**7**	1
Other expenses	**74**	75
	222	205

4 Directors

Remuneration in respect of directors was as follows:	**2005 £'000**	2004 £'000
Remuneration	**103**	101
Social security costs	**9**	9
	112	110

The average number of employees, all of whom were directors, of the group during the year was 6 (2004 6). More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report.

5 Taxation

	2005 £'000	2004 £'000
Current tax:		
On revenue profits	**461**	414
On capital profits	**8**	6
Prior year overprovision	**(1)**	(1)
Deferred tax (note 13)	**1,083**	433
	1,551	852

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2004 30%). The differences are explained as follows:

	2005 £'000	2004 £'000
Profit before tax	**6,838**	3,771
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2004 30%).	**2,051**	1,131
Effect of:		
Tax exempt revenues	**(87)**	(72)
Chargeable gains less than accounting profit	**(411)**	(206)
Adjustments to tax charge in respect of prior periods	**(2)**	(1)
Income tax expense	**1,551**	852

6 Dividends

On 22 March 2006, the directors declared an ordinary dividend of 8.30p per share (2004 7.65p) payable on 7 June 2006 to shareholders registered at 5 May 2006.

The following dividends have been paid by the group.

	2005 £'000	2004 £'000
2004 Final: 7.65p per ordinary share (2003 7.25p)	**395**	374
2005 Interim: 4.35p per ordinary share (2004 4.05p)	**225**	209
	620	583

7 Earnings per share

The calculation of earnings per share is based on the profit for the year of £5,287,000 (2004 £2,919,000) and on 5,167,240 shares (2004 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2005 and throughout the period since 1 January 2004.

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 £1,366,000 (2004 £1,211,000) has been calculated.

	2005	2004
	£'000	£'000
Earnings:		
Basic earnings (profit for the year)	**5,287**	2,919
Adjustments for:		
Net valuation gains on investment property	**(3,407)**	(1,244)
Gains and losses on investments	**(1,606)**	(903)
Income tax on gains and losses	**1,092**	439
Adjusted earnings (operating profit)	**1,366**	1,211
Per share amount:		
Basic earnings per share	**102.3p**	56.5p
Adjustments for:		
Net valuation gains on investment property	**(65.9)p**	(24.1)p
Gains and losses on investments	**(31.1)p**	(17.5)p
Income tax on gains and losses	**21.1p**	8.5p
Adjusted earnings per share	**26.4p**	23.4p

8 Investment property

	2005	2004
	£'000	£'000
Valuation at 1 January 2005	**30,523**	25,436
Additions	**–**	4,089
Disposals	**(461)**	(237)
Surplus on revaluation	**3,399**	1,235
Valuation at 31 December 2005	**33,461**	30,523

In accordance with IAS 40, Jones Lang LaSalle have valued investment property. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2005, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements.

At 31 December 2005, investment property with a carrying amount of £2,600,000 is subject to a registered debenture to secure a medium-term bank loan (see note 12).

The group leases out its commercial investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2005	2004
	£'000	£'000
Less than one year	**1,831**	1,751
Between one and five years	**6,401**	6,462
More than five years	**11,166**	12,043
Total	**19,398**	20,256

9 Equity investments

	2005 £'000	2004 £'000
Valuation at 1 January 2005	**8,731**	8,062
Additions	**958**	1,016
Disposals	**(643)**	(1,211)
Surplus on revaluation	**1,574**	864
Valuation at 31 December 2005	**10,620**	8,731

The directors have adopted the fair value option for its equity investments on the basis that to do so is in accordance with its documented investment strategy. Equity investments are included at their market value.

10 Trade and other receivables

	2005 £'000	2004 £'000
Trade debtors	**277**	327
Other debtors	**24**	42
	301	369

11 Trade and other payables

	2005 £'000	2004 £'000
Trade creditors	**439**	445
Social security and other taxes	**158**	131
Other creditors	**128**	103
	725	679

12 Interest bearing loans and borrowings

	2005 £'000	2004 £'000
Medium term bank loan	**1,429**	1,499
The medium term bank loan comprises amounts falling due as follows:		
Between one and two years	**71**	71
Between two and five years	**238**	238
Over five years	**1,120**	1,190
	1,429	1,499

The medium term bank loan bears interest at 1% over base payable quarterly in arrears and expiring in December 2019.

The medium term bank loan is secured by a fixed charge on an investment property which has a carrying value of £2,600,000 (note 8).

13 Deferred tax liabilities

Deferred taxation, arising from revaluation gains, provided for in the financial statements is set out below and is calculated using a tax rate of 30% (2004 30%).

2005	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2005	1,239	1,216	2,455
Transfer to current tax on sale of assets	(55)	(123)	(178)
Provided in the year	430	653	1,083
At 31 December 2005	**1,614**	**1,746**	**3,360**

2004	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2004	1,036	1,078	2,114
Transfer to current tax on sale of assets	(62)	(30)	(92)
Provided in the year	265	168	433
At 31 December 2004	1,239	1,216	2,455

14 Share capital

	2005 £'000	2004 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2004 5,167,240) ordinary shares of 25p each	**1,292**	1,292

15 Total equity

2005

	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2005	1,292	6,322	2,933	95	14,766	9,089	34,497
Total recognised gain and expense	–	–	–	–	–	5,287	5,287
Dividends to shareholders	–	–	–	–	–	(620)	(620)
Non-distributable items recognised in income statement:							
Revaluation gains	–	3,399	1,574	–	–	(4,973)	–
Tax on revaluation gains	–	(653)	(431)	–	–	1,084	–
Realised gains	–	–	–	–	32	(32)	–
Surplus attributable to assets sold in the year	–	(457)	(229)	–	686	–	–
Tax on surplus attributable to assets sold in the year	–	123	55	–	(178)	–	–
At 31 December 2005	**1,292**	**8,734**	**3,902**	**95**	**15,306**	**9,835**	**39,164**

2004

	Equity £'000	Revaluation reserves Property £'000	Revaluation reserves Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2004	1,292	5,526	2,462	95	14,325	8,461	32,161
Total recognised gain and expense	–	–	–	–	–	2,919	2,919
Dividends to shareholders	–	–	–	–	–	(583)	(583)
Non-distributable items recognised in income statement:							
Revaluation gains	–	1,235	864	–	–	(2,099)	–
Tax on revaluation gains	–	(244)	(189)	–	–	433	–
Realised gains	–	–	–	–	42	(42)	–
Surplus attributable to assets sold in the year	–	(257)	(234)	–	491	–	–
Tax on surplus attributable to assets sold in the year	–	62	30	–	(92)	–	–
At 31 December 2004	1,292	6,322	2,933	95	14,766	9,089	34,497

In accordance with the articles of association the revaluation and realised capital reserves are not distributable.

16 Cash and cash equivalents

	2005 £'000	2004 £'000
Bank balances	**725**	–
Bank overdraft	**–**	(146)
Cash and cash equivalents in the statement of cash flows	**725**	(146)

17 Capital commitments

There were no capital commitments at 31 December 2005 or 31 December 2004.

18 Contingent liabilities

There were no contingent liabilities at 31 December 2005 or 31 December 2004.

19 Post balance sheet event

In January 2006 a property located in Staines was purchased for £2,825,000 by the company's subsidiary, Rodenhurst Estates Limited.

20 Related party transactions

Kingerlee Holdings Limited owns 24.5% (2004 24.4%) of the company's shares and D H Kingerlee, G J Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2005, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £200 (2004 £21,000) and a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2004 £14,000). The amount owed at 31 December 2005 was nil (2004 £19,000). All transactions were undertaken on an arm's length basis.

Transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

21 Financial instruments

Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the group's business. The group has no derivative financial instruments.

Credit risk

The group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any allowances for doubtful debtors, estimated by the directors. The group has no significant concentration of credit risk, with exposure spread over a number of tenants.

Interest rate risk

The group finances its operations through retained profits, medium term borrowings and the use of overdraft facilities. When medium term borrowings or overdraft facilities are used variable rates of interest apply. The weighted average interest rate paid in 2005 was 5.7%. Neither fixed rate instruments nor interest rate swaps have been used. The group places any cash balances on deposit at rates which are fixed in the short term but for sufficiently short periods that there is no need to hedge against the implied risk.

Liquidity risk

Short term flexibility is achieved by overdraft facilities. These facilities were used during the year, for short periods of time.

Maturity of group financial liabilities

The analysis of group financial liabilities, which are at variable rates, at 31 December 2005 is as follows:

	2005	2004
	£'000	£'000
In less than one year or on demand:		
Bank overdraft	**–**	146
Bank borrowings	**71**	69
In more than one year but less than two years:		
Bank borrowings	**71**	71
In more than two years but less than five years:		
Bank borrowings	**238**	238
In more than five years:		
Bank borrowings	**1,120**	1,190
Total	**1,500**	1,714

21 Financial instruments (continued)

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2005 in respect of which all conditions precedent had been met were as follows:

	2005	2004
	£'000	£'000
Expiring in one year or less	**400**	254
Expiring after two years	**8,500**	8,432
Total	**8,900**	8,686

The facilities included above are subject to review by the provider of the facilities on 30 April 2006.

Currency risk

The group is not exposed to currency risk as it does not trade in foreign currencies. However, 16.7% (2004 18.2%) of the listed investment portfolio is held overseas and the inherent currency risk of that part of the portfolio is taken into consideration as part of the overall assessment of investment risk.

Fair value and maturity of financial instruments

At 31 December 2005 the group had total borrowings of £1,500,000. Fair values were not materially different from book values at 31 December 2005.

22 Explanation of transition to IFRS

As stated in note 1, these are the group's IFRS annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the year ended 31 December 2005, the financial statements for the year ended 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the group's date of transition). In preparing its opening IFRS balance sheet, comparative information for the financial statements for the year ended 31 December 2004, the group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the group's reported financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Balance sheet at 1 January 2004		Previous GAAP	Effect of transition to IFRS	IFRS
Assets		£'000	£'000	£'000
Non-current assets				
Investment property		25,436	–	25,436
Equity investments		8,062	–	8,062
Total non current assets		33,498	–	33,498
Current assets				
Trade and other receivables		532	–	532
Cash at bank and in hand		1,079	–	1,079
Total current assets		1,611	–	1,611
Total assets		35,109	–	35,109
Liabilities				
Current liabilities				
Interest-bearing loans and borrowings		–	–	–
Deferred tax liabilities	a.	–	2,114	2,114
Total non-current liabilities		–	2,114	2,114

22 Explanation of transition to IFRS (continued)

		Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current liabilities				
Bank overdraft		–	–	–
Interest-bearing loans and borrowings		–	–	–
Current corporation tax		218	–	218
Trade and other payables	b.	990	(374)	616
Total current liabilities		1,208	(374)	834
Total liabilities		1,208	1,740	2,948
Net assets		33,901	1,740	32,161
Equity				
Issued share capital		1,292	–	1,292
Revaluation reserve – property	a.	6,560	(1,034)	5,526
– other	a.	3,542	(1,080)	2,462
Capital redemption reserve		95	–	95
Realised capital reserve		14,325	–	14,325
Profit and loss account	b.	8,087	374	8,461
Total equity		33,901	(1,740)	32,161

Balance sheet at 31 December 2004

		Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Investment property		30,523	–	30,523
Equity investments		8,731	–	8,731
Total non current assets		39,254	–	39,254
Current assets				
Trade and other receivables		369	–	369
Cash at bank and in hand		–	–	–
Total current assets		369	–	369
Total assets		39,623	–	39,623
Liabilities				
Current liabilities				
Bank overdraft		146	–	146
Interest-bearing loans and borrowings		69	–	69
Trade and other payables	b.	1,352	(395)	957
Total current liabilities		1,567	(395)	1,172
Interest-bearing loans and borrowings		1,499	–	1,499
Deferred tax liabilities	a.	–	2,455	2,455
Total non-current liabilities		1,499	2,455	3,954
Total liabilities		3,066	2,060	5,126
Total equity		36,557	(2,060)	34,497

22 Explanation of transition to IFRS (continued)

Balance sheet at 31 December 2004

		Previous GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Equity				
Issued share capital		1,292	–	1,292
Revaluation reserve – property	a.	7,538	(1,216)	6,322
– other	a.	4,172	(1,239)	2,933
Capital redemption reserve		95	–	95
Realised capital reserve		14,766	–	14,766
Profit and loss account	b.	8,694	395	9,089
Total equity		36,557	(2,060)	34,497

Note a. Under previous GAAP, deferred tax on sale of assets at their balance sheet value was noted as a contingent liability. The group has applied IAS 12 on Income Taxes which requires full provision for this potential liability.

Note b. Under previous GAAP, dividends declared in respect of an accounting period were recognised as a liability at the end of that accounting period. The group has applied IAS 10 which requires dividends proposed before the financial statements are authorised to be disclosed as a note only.

Reconciliation of profit for year to 31 December 2004	£'000	£'000	£'000
Gross rental income	1,667	–	1,667
Property operating expenses	(127)	–	(127)
Net rental income	1,540	–	1,540
Profit on disposal of investment property	9	–	9
Valuation gains on investment property	–	1,545	1,545
Valuation losses on investment property	–	(310)	(310)
Net valuation gains on investment property	–	1,235	1,235
Dividend income	285	–	285
Gains on investments	39	1,003	1,042
Losses on investments	–	(139)	(139)
Net investment income	324	864	1,188
Administrative expenses	205	–	205
Net operating profit before net financing costs	1,668	2,099	3,767
Finance income	21	–	21
Finance expenses	(17)	–	(17)
Net financing expenses	4	–	4
Profit before tax	1,672	2,099	3,771
Income tax expense	419	433	852
Profit for the financial year	1,253	1,666	2,919
Earnings per share	24.2p	32.3p	56.5p

Largest property holdings of the group

	Valuation of holding at 31 December 2005 £'000
Distribution centre in Kidlington, Oxfordshire	3,100
Office building in central Bristol	3,000
Radio station and office building in north Oxford	2,900
Distribution centre in Southampton	2,600
Licensed retail and restaurant property in Warrington	2,100
Retail outlet in Leamington Spa	1,950
Office building in Solihull	1,950
Retail outlet in Norwich	1,875
Retail outlet in Oxford High Street	1,800
Retail outlets in Cirencester	1,700

The value of the above ten properties represents 69% (2004 68%) of the value of the property investment portfolio of the group at 31 December 2005.

Largest equity holdings of the group

	Valuation of holding at 31 December 2005 £'000
GlaxoSmithkline	513
ANZ Banking Group	512
HSBC Holdings	466
Rio Tinto	465
Royal Bank of Scotland	439
British Petroleum	359
Bank of Nova Scotia	345
Slough Estates	309
Royal Dutch Shell	300
Tesco	298

The value of the above ten investments represents 38% (2004 38%) of the value of the listed investment portfolio of the group at 31 December 2005.

	2005 £'000	2004 £'000 Restated	2003 £'000 Restated	2002 £'000 Restated	2001 £'000 Restated	2000 £'000 Restated	1999 £'000 Restated
Investment properties – at annual valuation	**33,461**	30,523	25,436	23,098	22,727	21,352	19,637
Listed investments – at market value	**10,620**	8,731	8,062	7,700	9,654	11,855	11,333
Total net assets	**39,164**	34,497	32,161	29,667	30,669	30,237	28,110
Net asset value per share in issue at end of each year	**758p**	668p	622p	574p	594p	585p	544p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Gross income from property	**1,917**	1,667	1,569	1,517	1,412	1,355	1,246
Income from other investments	**339**	285	301	322	334	407	350
Profit available for distribution	**1,366**	1,211	1,140	1,074	1,069	1,051	1,024
Share capital							
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167	5,167	5,216
Basic earnings per ordinary share	**102.3p**	56.5p	58.7p	8.4p	15.1p	51.1p	83.4p
Adjusted earnings per ordinary share	**26.4p**	23.4p	22.1p	20.8p	20.6p	20.3p	19.6p
Dividends paid per ordinary share	**12.65p**	11.70p	11.00p	10.15p	9.25p	8.50p	7.80p
All-Share Index	**2,847**	2,410	2,207	1,894	2,524	2,984	3,242
FTSE 100 Share Index	**5,618**	4,814	4,477	3,940	5,217	6,222	6,930
Highcroft year end share price	**615p**	505p	480p	357p	385p	430p	402p
Retail Price Index	**194.1**	189.9	183.5	178.5	173.4	172.2	167.3

Prior years' amounts have been restated in accordance with IFRSs.

The company's share price is quoted in the Financial Times and included in the "Real Estate" category. Shareholders should note that the current quotation of the company's shares can also be obtained directly from the Stock Exchange by telephoning FT Cityline - 0906 003 2888 or 0906 843 2888. Calls are charged at 60p per minute at all times.

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Principles.

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

D Bowman
Company Secretary

Thomas House
Langford Locks
Kidlington
OX5 1HR

22 March 2006

We have audited the parent company financial statements (the "financial statements") of Highcroft Investments PLC for the year ended 31 December 2005 which comprise the accounting policies, profit and loss account, the balance sheet, the statement of total recognised gains and losses and the note of historical cost profits and losses and notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of Highcroft Investments PLC for the year ended 31 December 2005.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the parent company financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements and the part of the directors' remuneration report to be audited. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP

Registered Auditors
Chartered Accountants
Oxford

22 March 2006

	Note	2005 £'000	2004 Restated £'000
Income from fixed asset investments and other interest receivable		**2,794**	695
Administration expenses	2	**(165)**	(146)
Operating profit		**2,629**	549
Gains on disposals of assets		**31**	38
Profit before taxation		**2,660**	587
Taxation	4	**50**	21
Profit for the financial year		**2,710**	608
Transfer to realised capital reserve		**(25)**	(34)
Profit available for distribution		**2,685**	574
Earnings per share:	6		
Basic		**52.4p**	11.8p
Adjusted		**51.9p**	11.1p

All operations are continuing.

The accompanying notes form an integral part of these financial statements.

COMPANY BALANCE SHEET
at 31 December 2005

	Note	2005			2004 Restated
		£'000	**£'000**	£'000	£'000
Fixed assets					
Investments	7		**40,581**		36,727
Current assets					
Debtors	8	**1,279**		453	
Cash at bank		**725**		–	
		2,004		453	
Creditors – amounts falling due within one year	9	**59**		228	
Net current assets			**1,945**		225
Total assets less current liabilities			**42,526**		36,952
Capital and reserves					
Called up share capital	10		**1,292**		1,292
Reserves – Realised capital	11	**3,252**		3,054	
– Capital redemption		**95**		95	
– Investment revaluation	11	**35,128**		31,817	
– Profit and loss account	11	**2,759**		694	
			41,234		35,660
Shareholders' funds	13		**42,526**		36,952

These financial statements were approved by the Board of Directors on 22 March 2006.

G J Kingerlee

J C Kingerlee
Directors

The accompanying notes form an integral part of these financial statements.

Statement of total recognised gains and losses

	2005	2004 Restated
	£'000	£'000
Profit for the financial year	**2,710**	663
Unrealised surplus on revaluation of listed and unlisted investments	**3,540**	2,619
Tax on valuation surplus arising in prior years attributable to properties sold in year	**(56)**	(26)
	6,194	3,256
Prior year adjustment in respect of dividends proposed	**(55)**	–
Total recognised gains and losses for the year since the last financial statements	**6,139**	3,256

Note of historical cost profits and losses

	2005	2004 Restated
	£'000	£'000
Profit on ordinary activities before taxation	**2,660**	587
Realisation of revaluation gains of previous years	**229**	257
Historical cost profit on ordinary activities before taxation	**2,889**	844
Historical cost profits retained	**2,065**	(9)

CASH FLOW STATEMENT
for the year ended 31 December 2005

	Note		2005		2004
		£'000	**£'000**	£'000	£'000
Net cash inflow from operating activities	14		**1,817**		(852)
Taxation			**(43)**		(23)
Capital expenditure and financial investment					
Purchase of listed investments		**(958)**		(1,016)	
Sale of listed investments		**675**		1,249	
Net cash outflow from capital expenditure and financial investment			**(283)**		(233)
Equity dividends paid	5		**(620)**		(583)
Increase/(decrease) in cash	15		**871**		(1,691)

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable UK GAAP accounting standards and under the historical cost convention except for the revaluation of fixed assets. The principal accounting policies of the group have remained unchanged from the previous year, except as noted below in respect of FRS 21 “Events after the balance sheet date”. The change is described in more detail below.

Income from fixed asset investments

Income from fixed asset investments includes:

- dividends received in the year
- and interest receivable for the year.

Dividends payable

Dividend payments are now dealt with when paid as a change of equity in the revenue reserve. Final dividends proposed are not recognised as a liability. This is to comply with FRS 21, Events after the Balance Sheet Date.

Investments

Investments are included at the following valuations:

- shares in subsidiary undertaking - net assets as shown by its financial statements,
- listed investments (all listed on a recognised investment exchange) - at market value,
- unlisted investments - at market value estimated by the directors.

Gains and losses arising on revaluation are taken to the revaluation reserve.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Unprovided deferred taxation would crystallise on the sale of assets at their balance sheet value.

Gains on disposals of assets

Gains on disposals of assets are the excess of net proceeds over the valuation at the beginning of the year. They are not available for distribution under the company’s articles of association and are taken to realised capital reserve.

Events after the balance sheet date

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity investments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. Previously where those equity dividends were proposed after the balance sheet date but before approval of the financial statements they were recorded as liabilities at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements which have not been shown as liabilities at the balance sheet date are disclosed in the notes to the financial statements. The financial effect of this change in accounting policy is as set out in note 5.

2 Administration expenses

	2005	2004
	£’000	£’000
Directors and employees (note 3)	**112**	110
Auditor’s remuneration:		
Audit services	**10**	4
Taxation	**6**	5
Other	**7**	1
Other expenses	**30**	26
	165	146

3 Directors

Remuneration in respect of directors was as follows:	**2005 £'000**	2004 £'000
Remuneration	**103**	101
Social security costs	**9**	9
	112	110

The average number of employees, all of whom are directors, of the company during the year was 6 (2004 6). More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report.

4 Taxation

	2005 £'000	2004 £'000
Corporation tax on operating profit	**(33)**	(25)
Corporation tax on disposals of assets	**6**	4
Prior year overprovision	**(23)**	–
	(50)	(21)

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2004 30%). The differences are explained as follows:

	2005 £'000	2004 £'000
Profit before tax	**2,660**	587
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2004 30%).	**798**	176
Effect of:		
Income/expenses not chargeable or deductible for tax purposes	**(821)**	(189)
Chargeable gains less than accounting profit	**(4)**	(8)
Adjustments to tax charge in respect of prior years	**(23)**	–
Income tax credit	**(50)**	(21)

5 Dividends

As disclosed within the accounting policies, FRS 21 was adopted in the year. The financial effect of this standard has been:

In 2004, dividends of £395,000 were proposed and disclosed in the profit and loss account for the year. In the comparative figures these are now no longer disclosed on the face of the profit and loss account but disclosed as an appropriation of profit in reserves (note 11).

In 2005, the following dividends have been paid by the company.

	2005 £'000	2004 £'000
2004 Final: 7.65p per ordinary share (2003 7.25p)	**395**	374
2005 Interim: 4.35p per ordinary share (2004 4.05p)	**225**	209
	620	583

On 22 March 2006, the directors declared an ordinary interim dividend of 8.30p per share (2004 7.65p) payable on 7 June 2006 to shareholders registered at 5 May 2006.

6 Earnings per share

The calculation of earnings per share is based on the profit for the year of £2,710,000 (2004 £608,000) and on 5,167,240 shares (2004 5,167,240) which is the weighted average number of shares in issue during the period ended 31 December 2005 and throughout the period since 1 January 2004.

In order to draw attention to the impact of valuation gains on disposals of assets which are included in the profit and loss account 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 £2,685,000 (2004 £574,000) has been calculated.

	2005	2004
	£'000	£'000
Earnings:		
Basic earnings	**2,710**	608
Adjustments for:		
Gains and losses on investments	**(31)**	(38)
Corporation tax on disposals of assets	**6**	4
Adjusted earnings (operating profit)	**2,685**	574
Per share amount:		
Basic earnings per share	**52.4p**	11.8p
Adjustments for:		
Gains and losses on investments	**(0.6)p**	(0.7)p
Corporation tax on disposals of assets	**0.1p**	–
Adjusted earnings per share	**51.9p**	11.1p

7 Equity investments

	Total	Shares in subsidiary undertaking	Other investments Listed	Other investments Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2005	36,277	27,546	8,727	4
Revaluation of Rodenhurst	450	450	–	–
Restated valuation at 1 January 2005	36,727	27,996	8,727	4
Additions at cost	958	–	958	–
Disposals	(644)	–	(644)	–
Surplus on revaluation	3,540	1,965	1,575	–
Valuation at 31 December 2005	**40,581**	**29,961**	**10,616**	**4**

The directors have adopted the fair value option for its equity investments on the basis that to do so is in accordance with its documented investment strategy. Equity investments are included at their market value.

If investments had not been revalued they would have been included on the historical cost basis at the following amounts:

	Total	Shares in subsidiary undertaking	Other investments Listed	Other investments Unlisted
	£'000	£'000	£'000	£'000
Cost at 31 December 2005	**4,757**	**354**	**4,399**	**4**
Cost at 31 December 2004	3,858	354	3,500	4

At 31 December 2005, the group held 100% of the allotted ordinary share capital and voting rights of Rodenhurst Estates Limited which is a property owning company, registered in England and Wales and operating in England.

8 Debtors

	2005	2004
	£'000	£'000
Owed by subsidiary undertaking	**1,253**	406
Taxation	**10**	–
Other debtors	**16**	47
	1,279	453

9 Creditors – amounts falling due within one year

	2005	2004
	£'000	£'000
Bank overdraft	**–**	146
Current taxation	**–**	27
Other taxes and social security	**1**	1
Other creditors	**58**	54
	59	228

10 Share capital

	2005 and 2004
	£
Authorised 8,000,000 ordinary shares of 25p each	2,000
Allotted, called up and fully paid 5,167,240 ordinary shares of 25p each	1,292

11 Reserves

	— Non-distributable —		Distributable
		Realised	Retained
	Revaluation	capital	earnings
	£'000	£'000	£'000
At 1 January 2005	31,367	3,054	749
Restatement for change in accounting policy	–	–	395
for dividends	450	–	(450)
At 1 January 2005 restated	31,817	3,054	694
Profit retained	–	–	2,685
Dividends paid	–	–	(620)
Revaluation gains – equities	1,575	–	–
Revaluation gain – Rodenhurst Estates Limited	1,965	–	–
Realised gains	–	25	–
Surplus attributable to assets sold in the year	(229)	229	–
Tax on surplus attributable to assets sold in the year	–	(56)	–
At 31 December 2005	**35,128**	**3,252**	**2,759**

12 Deferred taxation

Deferred taxation provided and unprovided for in the financial statements is set out below and is calculated using a tax rate of 30% (2004 30%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Unrealised capital gains	**–**	–	**8,036**	7,140

13 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 Restated £'000
Profit for the financial year	**2,710**	608
Dividends	**(620)**	(583)
	2,090	25
Other recognised gains and losses:		
Surplus on revaluation of assets	**3,540**	2,619
Tax on prior years' surplus now realised	**(56)**	(26)
Net increase in shareholders' funds	**5,574**	2,618
Shareholders' funds at 1 January 2005	**36,952**	34,334
Shareholders' funds at 31 December 2005	**42,526**	36,952

14 Reconciliation of operating profit to net cash flow from operating activities

	2005 £'000	2004 £'000
Operating profit	**2,629**	549
(Increase)/decrease in debtors	**(816)**	2
Decrease/(increase) in creditors	**4**	(1,403)
Net cash inflow/(outflow) from operating activities	**1,817**	(852)

15 Analysis of changes in net funds/(debt)

	1 January 2005 £'000	Cashflow £'000	31 December 2005 £'000
Cash at bank	–	725	**725**
Overdraft	(146)	146	**–**
Total	(146)	871	**725**

16 Capital commitments

There were no capital commitments at 31 December 2005 or at 31 December 2004.

17 Contingent liabilities

There were no contingent liabilities at 31 December 2005 or at 31 December 2004 except for deferred taxation (note 12).

18 Related party transactions

Kingerlee Holdings Limited owns 24.5% (2004 24.4%) of the company's shares and D H Kingerlee, G J Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2005, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2004 £14,000). The amount owed at 31 December 2005 was nil (2004 Nil). All transactions were undertaken on an arm's length basis.

Transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

NOTICE IS HEREBY GIVEN that the seventy-eighth Annual General Meeting of the company will be held at The Dog House Hotel, Frilford Heath, Oxon, OX13 6QJ on Wednesday, 24 May 2006 at 12 noon, for the following purposes.

To transact the following ORDINARY business:

1 To receive and consider the report and financial statements for the year ended 31 December 2005.

2 To approve a final dividend of 8.30p per share on the ordinary shares of the company for the year ended 31 December 2005 to be paid on 7 June 2006 to shareholders registered on 5 May 2006.

3 In accordance with the Companies Act 1985 s241A(3) to approve on an advisory only basis the remuneration report contained in the annual report including the company's remuneration policy for directors and the level of directors' remuneration disclosed therein.

4 To elect Christopher Clark as a director of the company (who has been appointed since the last AGM).

5 To re-elect Richard Stansfield as a director of the company (retiring by rotation).

6 To re-elect David Kingerlee as a director of the company (retiring by rotation).

7 To re-appoint Grant Thornton UK LLP as auditors.

8 To authorise the directors to fix the remuneration of the auditors for the ensuing year.

9 To transact any other ordinary business of the company.

By Order of the Board

D Bowman
Company Secretary

Registered Office
Thomas House
Langford Locks
Kidlington
Oxon
OX5 1HR

22 March 2006

Notes:

a Any member entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him or her; such proxy need not be a member of the company.

b Admittance to the meeting will be restricted to shareholders. Guests will only be admitted by prior arrangement.

c The directors encourage, and will appreciate, shareholders giving advance notice of questions to be put to the meeting.

d Directors' service contracts will be available for inspection, by appointment, from 22 March 2006 until 24 May 2006 at the Registered Office and at the place of the Annual General Meeting from 11.45 am on 24 May 2006 until the conclusion of the Annual General Meeting.

e Biographical details for Christopher Clark, Richard Stansfield and David Kingerlee are on page 7.

f Please note that a detachable proxy form is included as page 43.

g To be valid the proxy must be deposited with the company's Registrars at Capita IRG PLC, The Registry, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours before the time fixed for the meeting.

HIGHCROFT INVESTMENTS PLC

FORM OF PROXY

I/We ....
(PLEASE COMPLETE IN BLOCK CAPITALS)

of ....

being a member/members of HIGHCROFT INVESTMENTS PLC, hereby appoint .... or failing him GAVIN KINGERLEE of Thomas House, Langford Locks, Kidlington, Oxon, or failing him DAVID BOWMAN of Thomas House, Langford Locks, Kidlington, Oxon*, or failing him the Chairman of the Annual General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting to be held on 24 May 2006 and at any adjournment thereof.

I/We desire to vote:

RESOLUTIONS	**For	**Against
ORDINARY RESOLUTIONS		
1. To receive and consider the report and financial statements for the year ended 31 December 2005		
2. To approve a final dividend of 8.30p per share on the ordinary shares of the company for the year ended 31 December 2005 to be paid on 7 June 2006 to shareholders registered on 5 May 2006		
3. In accordance with the Companies Act 1985 s241A(3) to approve on an advisory only basis the remuneration report contained in the annual report including the company's remuneration policy for directors and the level of directors' remuneration disclosed therein		
4. To elect Christopher Clark as a director of the company (who has been appointed since the last AGM)		
5. To re-elect Richard Stansfield as a director of the company (retiring by rotation)		
6. To re-elect David Kingerlee as a director of the company (retiring by rotation)		
7. To re-appoint Grant Thornton UK LLP as auditors		
8. To authorise the directors to fix the remuneration of the auditors for the ensuing year		

SIGNED this .... day of 2006

....

....

* If it is desired to appoint another person as proxy, these names should be deleted and the name of the proxy inserted. A member may appoint a proxy of his or her choice, and such proxy need not be a member of the company.

** Please indicate, by inserting X in the appropriate box, the manner in which the proxy is to vote. Unless otherwise instructed, the proxy will vote or abstain as he or she thinks fit.

NOTE In the case of a corporation the proxy must be appointed under its common seal or under the hand of an official or attorney duly authorised in writing. In the latter case, the authority should accompany the proxy form. In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person, or by proxy, will be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members.

To be valid, this proxy form, duly signed, must be deposited at the address on the reverse of this proxy form not less than 48 hours before the time of the meeting, or any adjournment thereof.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122

1

Capita Registrars Plc (PROXIES)
PO BOX 25
Beckenham
Kent
BR3 4BR

FIRST FOLD

THIRD FOLD

HIGHCROFT INVESTMENTS PLC

Thomas House, Langford Locks

Kidlington, Oxon OX5 1HR