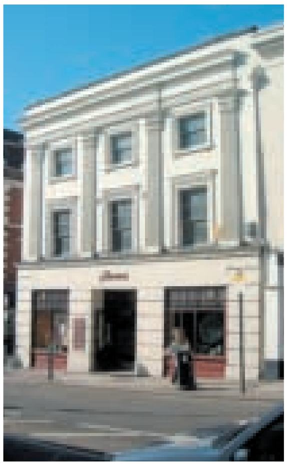
HIGHCROFT INVESTMENTS PLC

2007



REPORT AND FINANCIAL STATEMENTS 31 December 2007

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

Contents

The report of the directors on pages 6 to 12 and the Directors' remuneration report on pages 13 and 14 have each been drawn up in accordance with the requirements of English law and liability in respect thereof is also governed by English law. In particular, the responsibility of the directors for these reports is owed solely to Highcroft Investments PLC.

The directors submit to the members their report and accounts of the Group for the year ended 31 December 2007. Pages 1 to 14, including the chairman's introduction, corporate governance statement, directors and advisers, report of the directors and directors' remuneration report form part of the report of the directors.

KEY HIGHLIGHTS

- Gross property income up 4.3% to £2,126,000
- Profit for the year on revenue activities up 4.1% to £1,562,000
- Basic loss per share on all activities was 8.5p
- Adjusted earnings per share (on revenue activities) up 4.1% to 30.2p
- Net asset value per share down 2.8% to 807p
- Total dividends up 4.0% to 14.25p per share
- Final dividend of 9.25p payable on 4 June 2008
- The group converts to a REIT on 1 April 2008

Dear Shareholder

With the benefit of hindsight, my cautionary comments in last year's annual report and at the interim stage ("a more hesitant commercial property market.... may bring opportunities" and "if the market as a whole continues to weaken in the coming months, our own portfolio will be affected") were hardly adequate to describe the subsequent events. The credit crisis which has engulfed much of the financial system has, in the event, had a severe effect on the commercial property market. As a consequence our net asset value per share has fallen from the December 2006 levels while adjusted earnings per share are marginally higher at 30.2p.

In the circumstances, the outcome could have been significantly poorer; we believe that the relative resilience of our performance is a reflection of the quality of our property portfolio (good tenants, a balance of lease lengths and attractive locations) and our lack of financial gearing.

The headline figure of a loss of £1.2 million pre-tax is worth further explanation. Shareholders will remember that the recent adoption of IFRS means that the income statement now also reflects the rise and fall in valuations of our property and equity investment portfolios. The headline pre-tax figures are likely to be volatile in the future – as evidenced by 2006's £5.7 million profit and 2007's loss of £1.2 million. When we look at the basic trading activities – the net operating profits – the situation is a lot more stable. At this level, we saw a rise in rental income, a fall in dividend income (2006 having seen a number of special dividends) and the impact of the cost of our move towards REIT status. Excluding the latter, profit before tax would have been up 1.2%.

Clearly the market is likely to remain difficult for some time. We are, though, well positioned to take advantage of market opportunities and any distress selling which might occur. We have resources – in terms of our equity investment portfolio and bank facilities – and very low levels of borrowing which is a relatively comfortable position in difficult times. We are cautious, though, and will buy only properties which are of quality, well-located and with good covenants.

I hope that shareholders will agree that our traditional stance of taking a medium to long term view seems even more appropriate in these times and that it is one which gives the chance of building future shareholder value as a result of current market disarray.

Our conversion to a REIT was made possible by the special resolution passed at an EGM on 19 March 2008. We remain convinced that our REIT status will be in the best interest of all shareholders and will provide a better return over the medium term. We are well aware that a significant minority voted against the change for a variety of reasons and we thank those who made their views known to us. We have listened to those views and will continue to take all shareholders' views into account with the intention of running the business for the benefit of shareholders as a whole.

Our AGM is always a forum for the expression of views and comment on our performance and I suspect that this year will be no different. My fellow directors (to whom go my thanks on behalf of shareholders for their hard work and deliberations in a difficult year) and I look forward to seeing you at this year's meeting on 21 May 2008.

John Hewitt
Chairman

1 April 2008

Application of Principles

The company has applied the principles of good governance contained in the Combined Code 06 (Principles of Good Governance and Code of Best Practice) 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 06 except that no performance related payments were made to directors, which is not in accordance with Code provision B.1.1.

Board effectiveness

The board is responsible for leading and controlling the group activities and, in particular:

- approving group 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 2007 the number of board and committee meetings with individual attendances was as follows:

	Board	Audit	Remuneration	Nomination
Number of Meetings	7	3	1	0
Attendance:				
J Hewitt	7/7	3/3	1/1	0
R N Stansfield	7/7	3/3	1/1	0
C J Clark	6/7	2/3	1/1	0
J C Kingerlee	7/7	Not applicable	Not applicable	Not applicable
D Bowman	7/7	3/3 (part)	Not applicable	Not applicable
D H Kingerlee	7/7	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 has six directors of which three are executive directors and three are non-executive directors. The chairman is John Hewitt, the senior independent director is Richard Stansfield and the chief executive is Jonathan Kingerlee. The board members' biographies are on page 10.

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.

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.

Formal procedures appropriate to the size of the business are in use 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 13. 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

The board 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 investors and documents are sent to shareholders at least 20 working days before the meeting. The chairman and chairmen of the audit and remuneration committees are available to answer relevant questions. Separate resolutions are proposed on each substantial 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. We have no institutional shareholders.

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 4, and that of the auditor on page 15. A statement on going concern appears on page 12.

The audit committee of the board comprises all the non-executive directors and is chaired by Christopher Clark. The committee meets not less than three times a year to review the scope and findings of the auditor's 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 also plays an important part in reviewing the company's systems of internal control which are described below. The audit committee reports on each of its meetings at the next board meeting.

The audit committee reviews the terms of engagement with the external auditor and ensures that the external auditor is independent via the segregation of audit-related work from other accounting functions and has referenced fees with similar auditors.

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 the external auditor arising from the audit and dealing with significant control matters raised
- regular board meetings to monitor continuously any areas of concern
- annual review of risks and internal controls
- annual review of compliance with Combined Code.

Internal control (continued)
The board has considered the need for an internal audit function but has decided that the size of the group does not justify it at present. However, it does review the position annually.

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 2007 and the period up to date of approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the 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 International Accounting Standards as adopted by the European Union 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 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.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditor is unaware; and
- the directors have taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 1 April 2008

Company number	224271
Directors	John Hewitt, MA *(Non-executive Chairman)* Christopher Clark, BA FCIS *(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 LLP 30 Warwick Street London W1B 5NH
Independent valuers	Jones Lang LaSalle 22 Hanover Square London W1A 2BN
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Solicitors	Clarks LLP One Forbury Square The Forbury Reading RG1 3EB
Registered office	Thomas House Langford Locks Kidlington Oxon OX5 1HR

The directors are pleased to present the eightieth annual report together with the audited financial statements of the group.

Principal activities

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

Results and dividends

The trading results for the year and the group's financial position at the end of the year are shown in the financial statements, and are discussed further in the business review below.

The net asset value per share decreased 2.8% to 807p from 830p. The property and equity portfolios have generated sufficient income to be able to announce a dividend increase in respect of 2007, from 13.70p to 14.25p, a rise of 4.0%. The board is proposing a final dividend on the ordinary shares in respect of 2007 of 9.25p (2006 9.0p) per share.

The dividends paid to shareholders during 2007 were as follows:

	2007	2006
	£'000	£'000
2006 Final: 9.00p per ordinary share (2005 8.30p)	**465**	429
2007 Interim: 5.00p per ordinary share (2006 4.70p)	**258**	243
	723	672

Business review

Financial performance – revenue activities

Gross income for the year ended 31 December 2007 was £2,532,000 (2006 £2,527,000).

Analysis of gross income	**2007**	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Commercial property income	**2,062**	1,933	1,833	1,586	1,484
Residential property income	**64**	105	84	81	85
Gross income from property	**2,126**	2,038	1,917	1,667	1,569
Income from equity investments	**406**	489	339	285	286
Total income	**2,532**	2,527	2,256	1,952	1,855

Commercial property income rose with the expansion of the portfolio in 2006 and was 6.7% up in 2007. Residential property income benefited from two exceptional events in 2006 which were not repeated in 2007 and so residential property income fell back 39%.

Underlying income from equity investments continued on a rising trend but, again, 2006 benefited from exceptional events which were not repeated in 2007.

Analysis of administrative and net finance expenses	**2007 £'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Directors' remuneration	**133**	141	112	110	114
Auditor's remuneration including other services	**31**	32	36	20	20
Fees in respect of potential conversion to a REIT	**147**	–	–	–	–
Other expenses	**80**	74	74	75	75
Administrative expenses	**391**	247	222	205	209
Net finance expenses/(income)	**209**	188	84	(4)	(15)
Total expenses	**600**	435	306	201	194

The ongoing running costs of the business were well controlled and were very much in line with those of 2006. The directors first sought shareholders' approval to convert the group to a REIT at an extraordinary general meeting on 13 December 2007. The fees incurred in 2007 to prepare the group for conversion were £147,000 and the costs of the second extraordinary general meeting on 19 March 2008 will be recognised in the financial statements for 2008.

Summary of profit before tax and income tax expense on revenue activities	**2007 £'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Profit before tax	**1,833**	1,956	1,825	1,624	1,549
Income tax expense	**271**	456	459	413	409
Distributable profit	**1,562**	1,500	1,366	1,211	1,140

Financial performance – capital activities

Commercial property values in general fell during the second half of 2007. However, the nature of our portfolio is such that the fall in value was less than in the market at large. Equity markets saw periods of turbulence in 2007.

Analysis of gains and losses on property – capital activities	**2007 £'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Realised gains on investment property	**107**	320	44	9	119
Realised losses on investment property	**(6)**	(33)	(36)	–	(37)
	101	287	8	9	82
Revaluation gains on investment property	**388**	2,732	3,464	1,042	1,577
Revaluation losses on investment property	**(3,819)**	(398)	(65)	(139)	(257)
	(3,431)	2,334	3,399	903	1,320

Analysis of gains and losses on equities – capital activities	**2007 £'000**	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Realised gains on equity investments	**272**	73	77	89	142
Realised losses on equity investments	**(245)**	(159)	(45)	(51)	(66)
	27	(86)	32	38	76
Revaluation gains on equity investments	**1,320**	1,382	1,671	953	1,048
Revaluation losses on equity investments	**(1,045)**	(150)	(97)	(88)	(52)
	275	1,232	1,574	865	996

Summary of investment activities	**2007**	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Purchase of property	**6**	7,437	–	4,089	1,596
Purchase of equity investments	**1,164**	1,029	958	1,016	624
	1,170	8,466	958	5,105	2,220

Strategy

The broad objectives of the group remain unchanged. These are 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 for 2007, including relevant key performance indicators, is as follows:

- *To continue the focus on the commercial property portfolio.*

Allocation of total investments	**2007**	2006	2005	2004	2003
	%	%	%	%	%
Commercial property	**71**	73	70	70	67
Residential property	**6**	5	6	8	9
Equity investments	**23**	22	24	22	24
Total	**100**	100	100	100	100

During the year we realised £1,865,000 by the sale of one commercial office which had, effectively, already been replaced by our office acquisition in Victoria in 2006.

Although the market was quite different in 2007 by comparison with previous years, the directors continued to seek further opportunities to expand the portfolio with investments let to good quality tenants offering medium term growth.

- *To continue to reduce the residential property portfolio when opportunities arise.*

Number of residential disposals	**2007**	2006	2005	2004	2003
Per annum	**1**	2	2	1	2

We plan for two residential disposals per year but as we sell only with vacant possession the annual rate is not within our control.

- *To have such a proportion of funds in equity investments which maintains a lower risk profile than would attach to a portfolio which was 100% invested in property.*

We intend that equity investments will represent 15-25% of total investments.

The All Share Index rose by 2% during 2007 and we made a number of disposals from the equity investment portfolio which gave a net gain of £27,000 in the income statement. During the course of 2006 there was a net cash divestment from the equity investment portfolio of £1,265,000.

- *To seek property development opportunities from within our own property portfolio.*

  We had expected that the right to add residential units to the commercial property in Staines, acquired in January 2006, would have been sold in 2007. This was delayed while the physical impact on our commercial units at that location was fully assessed.

- *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.*

  This continues to be one of the potential attractions which we seek from new acquisitions.

- *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 2007 was £1,927,000 (2006 £5,931,000) of which £18,000 (2006 £246,000) is included as a current liability and £1,909,000 (2006 £5,685,000) as a non-current liability. The gearing ratio (i.e. medium term funding as a proportion of total equity) at 31 December 2007 was 4.7% (2006 13.3%) which places our debt funding at a very low level. Medium term debt was reduced during 2007 with cash generated from the equity portfolio.

Summary of other key performance indicators

The directors have monitored the progress of the group strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators.

Growth in gross income	**2007**	2006	2005	2004	2003
Commercial property income	**7%**	5%	16%	7%	4%
Residential property income	**(39%)**	25%	4%	-5%	-11%
Total property income	**6%**	6%	15%	6%	3%
Dividend income	**(17%)**	44%	19%	-10%	-5%
Total income	**0%**	12%	16%	4%	2%

Value of voids and bad debts	**2007**	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Voids	**14**	10	–	–	–
Bad debts	**–**	–	–	–	–

Our first void for many years arose in 2006 as part of the planned approach to the residential development at Staines and relates to the first floor offices which have now been let and will generate income in 2008.

Future developments for the business/future outlook

The property market fell sharply in the second half of 2007 in what has been regarded by many as a long awaited correction. We are still looking at potential investments and will not be averse to making acquisitions which we believe will give financial return in the medium term.

Equity markets were turbulent in the second half of 2007 and this has continued into 2008. We do not expect markets to be very different in 2008. Our activities in these markets are able to be more short term than those in the property market but we do still predominantly seek return in the medium term.

Principal risks and uncertainties

The management of the business and the nature of the group's strategy are subject to a number of risks. The directors have set out below four principal risks facing the business.

The directors are of the opinion that a thorough risk management process is adopted which includes the formal review of all the four risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

1. *Business strategy*
   The success of Highcroft is dependent upon establishing the right business strategy to fulfil shareholder expectations. Since 2001, we have been explicit about our strategy and assessed each year's performance against that strategy in our annual report. In response to this risk, directors use planning and forecasting of the business to help to ensure that outcomes are satisfactory for shareholders.

2. *Potential for unsatisfactory relationship with property advisers and managers*
   The performance of the property portfolio is key to our overall success and the professional advice we receive is critical. We work closely with our advisers to review regularly the performance of the portfolio and also that of the advisers themselves.

3. *Internal controls become ineffective, irrelevant or incomplete*
   Potential issues affecting internal control are a continuous part of our thinking. Risks and their control are reviewed annually by the audit committee and by the whole board.

4. *Insolvency of a tenant*
   Tenant insolvency leads to bad debts and voids. Rent collections are continuously reviewed by our property managers and regularly reviewed internally. Tenants' financial status is carefully reviewed when a new lease is entered into and when a property is acquired.

Financial instruments

Information on financial instruments is included in note 19.

Environmental policy

The directors have not considered it appropriate, given the size and nature of the group's activities to have an environmental policy. However, we ensure that action is taken to comply with all relevant legislation.

Directors

The directors are as follows:

John Hewitt: John Hewitt, 62, 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.

Christopher Clark: Christopher Clark, 65, was appointed as an independent non-executive director in January 2006. He is also a board member of Advance Focus Fund Limited, of which he is non-executive chairman, and was a board member of William Ransom & Son plc until the end of 2007. He previously worked as a stockbroker and is a Fellow of the Chartered Institute of Secretaries.

Richard Stansfield: Richard Stansfield, 50, is a chartered surveyor and formerly a director of Savills commercial department based in Oxford where he advised a number of institutional clients on their commercial property portfolios throughout the UK. He is now Land Agent for Jesus College Oxford and responsible for a fund of commercial, residential and rural properties located in England and Wales. He was appointed as an independent non-executive director in 2002.

Jonathan Kingerlee:	Jonathan Kingerlee, 47, became an executive director in 1995 and chief executive in 2001. He is chief executive of the Kingerlee Group of companies, which trades principally in construction and property development and has various investment interests. Other interests include companies developing and selling environmental building materials, and he is also a founder member of the Good Homes Alliance which is a trade association open to property developers committed to improving the performance of newly constructed homes.
David Bowman:	David Bowman, 52, 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, 46, 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.

Richard Stansfield and Jonathan 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 2007 and at 31 December 2007 were as follows:

	31 December 2007		1 January 2007	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
J Hewitt	**10,000**	**–**	10,000	–
C J Clark	**1,950**	**–**	1,950	–
R N Stansfield	**–**	**–**	–	–
J C Kingerlee	**92,096**	**–**	92,096	–
D Bowman	**16,395**	**86,354**	14,995	84,854
D H Kingerlee	**166,250**	**77,780**	166,250	74,300

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

- 74,300 of the non-beneficial holdings of David Bowman and David Kingerlee;
- 1,715 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 2008 to 1 April 2008.

Substantial shareholders

As at 1 April 2008 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	(25.3%)	1,308,347	–
D G & M B Conn and associates	(18.9%)	980,005	–
D H Kingerlee	(3.2%)	166,250	77,780
G J Kingerlee	(3.1%)	161,150	–

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 suppliers

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 2007 when average creditor days were 31 (2006 31).

Donations

Donations to charitable organisations amounted to £4,200 (2006 £3,600). There were no political donations.

Future changes in accounting standards

IAS1 (Presentation of Financial Statements) and IFRS8 (Segment Reporting) each will require minor changes to disclosures with effect from the year ending 31 December 2009.

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 1 April 2008

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 Richard Stansfield (Chairman), Christopher Clark and John Hewitt. 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 any element of 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
J Hewitt	1 July 2007	30 June 2010
C J Clark	1 January 2006	30 June 2009
R N Stansfield	1 January 2006	30 June 2008
J C Kingerlee	1 July 2005	30 June 2008
D Bowman	1 July 2007	30 June 2010
D H Kingerlee	1 July 2006	30 June 2009

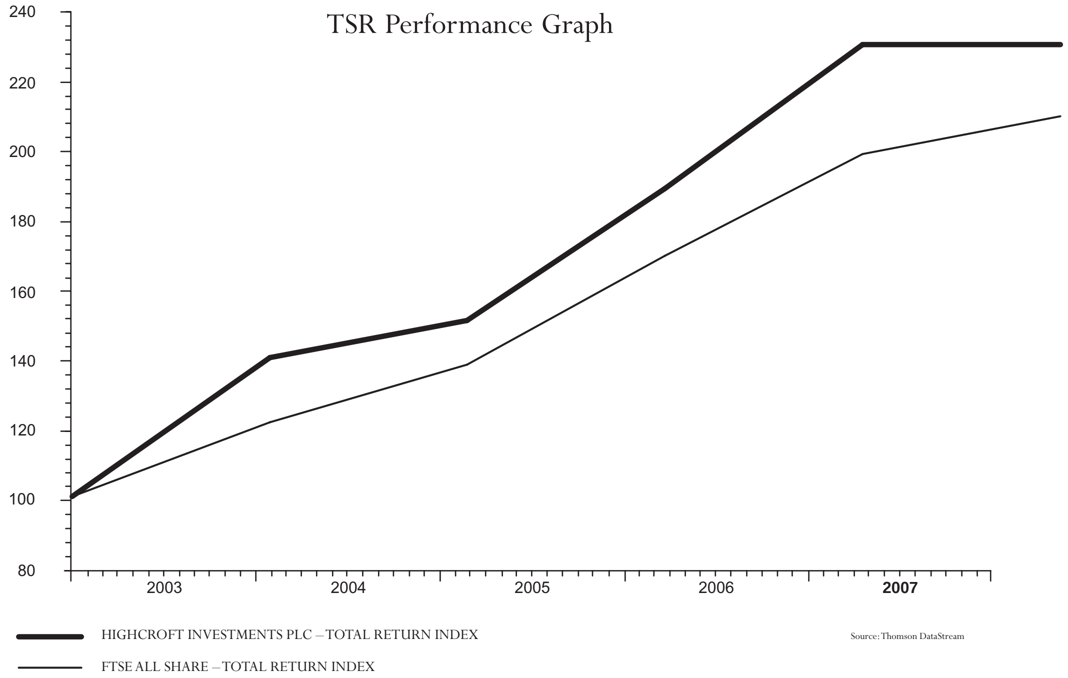
The remuneration of the non-executive directors is determined by the whole board.

Directors' interests

Directors' interests are shown in the Report of the directors on page 11. 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) 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)

	2007	2006
	£	£
John Hewitt	**15,600**	11,250
Gavin Kingerlee (until 30 September 2006)	**–**	11,250
Christopher Clark	**10,400**	10,000
Richard Stansfield	**10,400**	10,000
Jonathan Kingerlee	**33,300**	32,000
David Bowman	**34,320**	34,500
David Kingerlee	**17,700**	17,000
	121,720	126,000

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.

R N Stansfield
Chairman of the Remuneration Committee

1 April 2008

We have audited the group financial statements of Highcroft Investments plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows and notes 1 to 20. These group 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 parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2007.

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 auditor's 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 group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS's) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 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 introduction, the corporate governance statement, report of the directors, the unaudited part of the directors' remuneration report 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 and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments 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 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 group financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS's as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford

1 April 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Gross rental revenue		**2,126**	**–**	**2,126**	2,038	–	2,038
Property operating expenses		**(99)**	**–**	**(99)**	(136)	–	(136)
Net rental revenue		**2,027**	**–**	**2,027**	1,902	–	1,902
Realised gains on investment property		**–**	**107**	**107**	–	320	320
Realised losses on investment property		**–**	**(6)**	**(6)**	–	(33)	(33)
Net realised gain on investment property		**–**	**101**	**101**	–	287	287
Valuation gains on investment property		**–**	**388**	**388**	–	2,732	2,732
Valuation losses on investment property		**–**	**(3,819)**	**(3,819)**	–	(398)	(398)
Net valuation (losses)/gains on investment property		**–**	**(3,431)**	**(3,431)**	–	2,334	2,334
Dividend revenue		**406**	**–**	**406**	489	–	489
Gains on equity investments	9	**–**	**1,592**	**1,592**	–	1,455	1,455
Losses on equity investments	9	**–**	**(1,290)**	**(1,290)**	–	(309)	(309)
Net investment income		**406**	**302**	**708**	489	1,146	1,635
Administration expenses	3	**(391)**	**–**	**(391)**	(247)	–	(247)
Net operating profit/(loss) before net finance expenses		**2,042**	**(3,028)**	**(986)**	2,144	3,767	5,911
Finance income		**28**	**–**	**28**	13	–	13
Finance expenses		**(237)**	**–**	**(237)**	(201)	–	(201)
Net finance expenses		**(209)**	**–**	**(209)**	(188)	–	(188)
Profit/(loss) before tax		**1,833**	**(3,028)**	**(1,195)**	1,956	3,767	5,723
Income tax (expense)/credit	5	**(271)**	**1,027**	**756**	(456)	(884)	(1,340)
Profit/(loss) for the year	15	**1,562**	**(2,001)**	**(439)**	1,500	2,883	4,383
Basic and diluted earnings/(loss) per share	7	**30.2p**	**(38.7p)**	**(8.5p)**	29.0p	55.8p	84.8p

The total column represents the income statement as defined in IAS1. There are no other items of income and expense and so no Statement of Recognised Income and Expense is presented.

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

CONSOLIDATED BALANCE SHEET
at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Investment property	8	**35,545**	41,487
Equity investments	9	**10,830**	11,794
Total non-current assets		**46,375**	53,281
Current assets			
Trade and other receivables	10	**326**	489
Cash		**813**	281
Total current assets		**1,139**	770
Total assets		**47,514**	54,051
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings		**18**	246
Current income tax		**426**	196
Trade and other payables	11	**743**	838
Total current liabilities		**1,187**	1,280
Non-current liabilities			
Interest-bearing loans and borrowings	12	**1,909**	5,685
Deferred tax liabilities	13	**2,705**	4,211
Total non-current liabilities		**4,614**	9,896
Total liabilities		**5,801**	11,176
Net assets		**41,713**	42,875
Equity			
Issued share capital	14	**1,292**	1,292
Revaluation reserve – property	15	**7,094**	10,169
– other	15	**4,203**	4,601
Capital redemption reserve	15	**95**	95
Realised capital reserve	15	**17,527**	16,055
Retained earnings	15	**11,502**	10,663
Total equity		**41,713**	42,875

These financial statements were approved by the Board of Directors on 1 April 2008.

J Hewitt

J C Kingerlee
Directors

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

	2007 £'000	2006 £'000
Operating activities		
(Loss)/profit for the year	**(439)**	4,383
Adjustments for:		
Net valuation losses/(gains) on investment property	**3,431**	(2,334)
Profit on disposal of investment property	**(101)**	(287)
Gains on investments	**(302)**	(1,146)
Finance income	**(28)**	(13)
Finance expense	**237**	201
Income tax (credit)/expense	**(756)**	1,340
Operating cash flow before changes in working capital and provisions	**2,042**	2,144
Decrease/(increase) in trade and other receivables	**163**	(188)
(Decrease)/increase in trade and other payables	**(94)**	113
Cash generated from operations	**2,111**	2,069
Finance income	**28**	13
Finance expenses	**(237)**	(201)
Income taxes paid	**(521)**	(650)
Net cash flows from operating activities	**1,381**	1,231
Investing activities		
Purchase of non-current assets – investment property	**(6)**	(7,437)
– equity investments	**(1,164)**	(1,029)
Sale of non-current assets – investment property	**2,619**	2,032
– equity investments	**2,429**	1,000
Net cash flows from investing activities	**3,878**	(5,434)
Financing activities		
New medium term loans	**–**	4,470
Loan repayments	**(4,004)**	(39)
Dividends paid	**(723)**	(672)
Net cash flows from financing activities	**(4,727)**	3,759
Net increase in cash	**532**	(444)
Cash at 1 January 2007	**281**	725
Cash at 31 December 2007	**813**	281

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 2007 comprise the company and its subsidiary, together referred to as the group. The accounting policies remain unchanged except for the compliance with IFRS7 which became mandatory for reporting periods which began on 1 January 2007 or later. The Standard replaces rules set out in IAS32 Financial Instruments: Presentation and Disclosures and has been applied by the group in these financial statements. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The first time application of IFRS7 has not resulted in any prior year adjustments of cash flows, net income or balance sheet line items.

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 in accordance with International Financial Reporting Standards as adopted by the European Union and under the historical cost convention, except that investment property and equity investments are stated at their fair value.

The preparation of financial statements in conformity with IFRS's requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The key judgements made by the directors are in the valuation of non-current assets where they accept the independent expert valuation of professional property valuers and the independently prepared summary of market prices for equity investments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affected that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 2007, also following consistent accounting policies. Unrealised profits or losses on intra-group transactions are eliminated in full.

Rental revenue

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

Dividend revenue

Dividend revenue 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.

Interest income

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

Expenses

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

Realised gains and losses

Realised gains and losses are calculated as the difference between the proceeds, less expenses, and the value of the asset at the beginning of the financial year. The related revaluation gains or losses of previous years are transferred from revaluation reserve to realised capital reserve.

1 Significant accounting policies (continued)

Income tax

Income tax on the profit and loss for the periods presented comprises current and deferred tax, except where they relate to items charged directly to equity in which case the related deferred tax is also charged or credited to equity. Income tax is recognised in the income statement.

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.

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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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.

In accordance with IAS40, a property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

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.

Cash

Cash comprises cash available at less than three months' notice.

Equity investments – available for sale financial assets

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

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.

Trade and other payables

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

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.

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.

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. There is no secondary reporting because the group trades entirely in the United Kingdom.

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

	2007	2006
	£'000	£'000
Commercial property		
Gross income	**2,062**	1,933
(Loss)/profit for the year	**(1,521)**	2,288
Assets	**34,088**	39,312
Liabilities	**3,429**	8,559
Residential property		
Gross income	**64**	105
Profit for the year	**257**	813
Assets	**2,553**	2,874
Liabilities	**656**	736
Financial assets		
Gross income	**406**	489
Profit for the year	**825**	1,282
Assets	**10,873**	11,865
Liabilities	**1,716**	1,881
Total		
Gross income	**2,532**	2,527
(Loss)/profit for the year	**(439)**	4,383
Assets	**47,514**	54,051
Liabilities	**5,801**	11,176

3 Administrative expenses

	2007	2006
	£'000	£'000
Directors (note 4)	**133**	141
Auditor's fees		
Fees payable to the company's auditor for the audit of the company's annual accounts	**4**	6
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**14**	11
Tax services	**11**	11
Other services pursuant to legislation	**2**	4
Fees in respect of potential conversion to a REIT	**147**	–
Other expenses	**80**	74
	391	247

4 Directors

	2007 £'000	2006 £'000
Remuneration in respect of directors was as follows:		
Remuneration	**122**	126
Social security costs	**11**	15
	133	141

The average number of employees, all of whom were directors, of the group during the year was 6 (2006 7). More detailed information concerning directors' remuneration is shown in the directors' remuneration report.

5 Income tax expense

	2007 £'000	2006 £'000
Current tax:		
On revenue profits	**341**	363
On capital profits	**37**	83
Prior year overprovision	**(31)**	(11)
	347	435
Deferred tax (note 13)	**(1,103)**	905
	(756)	1,340

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained as follows:

	2007 £'000	2006 £'000
(Loss)/profit before tax	**(1,195)**	5,723
(Loss)/profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	**(358)**	1,716
Effect of:		
Tax exempt revenues	**(93)**	(119)
Deferred taxation now at 28%	**(281)**	–
Chargeable gains more than accounting profit	**7**	(246)
Adjustments to tax charge in respect of prior periods	**(31)**	(11)
Income tax (credit)/expense	**(756)**	1,340

6 Dividends

On 1 April 2008, the directors declared an ordinary dividend of 9.25p per share (2006 9.0p) payable on 4 June 2008 to shareholders registered at 9 May 2008.

The following dividends have been paid by the group.

	2007 £'000	2006 £'000
2006 Final: 9.00p per ordinary share (2005 8.30p)	**465**	429
2007 Interim: 5.00p per ordinary share (2006 4.70p)	**258**	243
	723	672

7 (Loss)/earnings per share

The calculation of earnings per share is based on the total loss for the year of £439,000 (2006 £4,383,000 profit) and on 5,167,240 shares (2006 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2007 and throughout the period since 1 January 2006. There are no dilutive instruments.

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 £1,562,000 (2006 £1,500,000) has been calculated.

	2007	2006
	£'000	£'000
Earnings:		
Basic earnings ((loss)/profit for the year	**(439)**	4,383
Adjustments for:		
Net valuation losses/(gains) on investment property	**3,330**	(2,621)
Gains and losses on investments	**(302)**	(1,146)
Income tax on gains and losses	**(1,027)**	884
Adjusted earnings (operating profit)	**1,562**	1,500
Per share amount:		
Basic (loss)/earnings per share	**(8.5p)**	84.8p
Adjustments for:		
Net valuation losses and gains on investment property	**64.4p**	(50.7p)
Gains and losses on investments	**(5.8p)**	(22.2p)
Income tax on gains and losses	**(19.9p)**	17.1p
Adjusted earnings per share	**30.2p**	29.0p

8 Investment property

	2007	2006
	£'000	£'000
Valuation at 1 January 2007	**41,487**	33,461
Additions	**6**	7,437
Disposals	**(2,517)**	(1,745)
Revaluation (losses)/gains	**(3,431)**	2,334
Valuation at 31 December 2007	**35,545**	41,487

In accordance with IAS 40, the carrying value of investment properties is the fair value of the property as determined by Jones Lang LaSalle. The valuation has been conducted by them as external valuers and has been prepared as at 31 December 2007, 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 2007, investment property with a carrying amount of £6,500,000 is subject to registered debentures to secure medium-term bank loans (see note 12).

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

	2007	2006
	£'000	£'000
Less than one year	**2,024**	2,106
Between one and five years	**6,899**	7,240
More than five years	**10,660**	11,078
Total	**19,583**	20,424

9 Equity investments

	2007 £'000	2006 £'000
Valuation at 1 January 2007	**11,794**	10,620
Additions	**1,164**	1,029
Disposals	**(2,403)**	(1,087)
Revaluation gains	**275**	1,232
Valuation at 31 December 2007	**10,830**	11,794

The analysis of gains and losses on equity investments shown in the income statement is as follows:

	2007 £'000	2006 £'000
Realised gains on equity investments	**272**	73
Revaluation gains on equity investments	**1,320**	1,382
	1,592	1,455

	2007 £'000	2006 £'000
Realised losses on equity investments	**245**	159
Revaluation losses on equity investments	**1,045**	150
	1,290	309

10 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**45**	421
Other receivables	**281**	68
	326	489

All of the trade receivables relate to rents demanded on the December quarter day, which makes them technically overdue on 31 December. However, all of these rents had been received by 1 April 2008. Consequently, the directors consider that the carrying value of trade and other receivables approximates their fair value.

11 Trade and other payables

	2007 £'000	2006 £'000
Trade payables	**482**	531
Social security and other taxes	**81**	161
Other payables	**180**	146
	743	838

The directors consider that the carrying value of trade and other payables approximates their fair value.

12 Interest bearing loans and borrowings

	2007 £'000	2006 £'000
Medium term bank loans	**1,909**	5,685
The medium term bank loans comprise amounts falling due as follows:		
Between one and two years	**37**	288
Between two and five years	**220**	1,002
Over five years	**1,652**	4,395
	1,909	5,685

The medium term bank loans are secured by a fixed charge on three properties, bear interest at 1% over base payable quarterly in arrears and expire as follows:

	2007 £'000	2006 £'000
2019	**–**	1,396
2021	**1,909**	4,289
	1,909	5,685

The medium term bank loans are secured by a fixed charge on investment properties which have a carrying value of £6,500,000 (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 28% (2006 30%).

2007	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2007	2,340	1,871	4,211
Transfer to current tax on sale of assets	(317)	(86)	(403)
Provided in the year	(799)	(204)	(1,103)
At 31 December 2007	**1,124**	**1,581**	**2,705**

2006	Investment property £'000	Equity investments £'000	Total £'000
At 1 January 2006	1,614	1,746	3,360
Transfer to current tax on sale of assets	(111)	(46)	(157)
Transfer from current taxation	103	–	103
Provided in the year	734	171	905
At 31 December 2006	2,340	1,871	4,211

14 Share capital

	2007 £'000	2006 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2006 5,167,240) ordinary shares of 25p each	**1,292**	1,292

The directors monitor capital on the basis of the carrying amount of equity plus its medium term debt as presented on the balance sheet and operate within the requirements of the Articles of Association and of the group's loan facility agreement. The Articles of Association permit borrowings up to 50% of total equity shown in the latest available audited financial statements and the current loan facility agreement is for a maximum of £6,396,000 or 40% of total equity shown in the latest available audited financial statements, whichever is the lower. Our debt obligations have been fully complied with since the first draw down in 2005.

	2007 £'000	2006 £'000
Total equity	**41,393**	42,875
Medium term debt	**1,927**	5,931
Medium term debt as a percentage of total equity	**4.7%**	13.8%

15 Total equity

2007

	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 2007	1,292	10,169	4,601	95	16,055	10,663	42,875
Profit for the year	–	–	–	–	–	(439)	(439)
Dividends to shareholders	–	–	–	–	–	(723)	(723)
Non-distributable items recognised in income statement:							
Revaluation (losses)/gains	–	(3,431)	275	–	–	3,156	–
Tax on revaluation (losses)/gains	–	861	203	–	–	(1,064)	–
Realised gains	–	–	–	–	91	(91)	–
Surplus attributable to assets sold in the year	–	(822)	(962)	–	1,784	–	–
Tax on surplus attributable to assets sold in the year	–	317	86	–	(403)	–	–
At 31 December 2007	**1,292**	**7,094**	**4,203**	**95**	**17,527**	**11,502**	**41,713**

15 Total equity (continued)

2006

	Equity £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2006	1,292	8,734	3,902	95	15,306	9,835	39,164
Profit for the year	–	–	–	–	–	4,383	4,383
Dividends to shareholders	–	–	–	–	–	(672)	(672)
Non-distributable items recognised in income statement:							
Revaluation gains	–	2,334	1,232	–	–	(3,566)	–
Tax on revaluation gains	–	(498)	(303)	–	–	801	–
Realised gains	–	–	–	–	118	(118)	–
Surplus attributable to assets sold in the year	–	(512)	(276)	–	788	–	–
Tax on surplus attributable to assets sold in the year	–	111	46	–	(157)	–	–
At 31 December 2006	1,292	10,169	4,601	95	16,055	10,663	42,875

Revaluation reserves include annual revaluation gains and losses, less attributable deferred taxation. The realised capital reserve includes realised revaluation gains and losses, less attributable income tax. In accordance with the Articles of Association the revaluation and realised capital reserves are not distributable.

16 Capital commitments

There were no capital commitments at 31 December 2007 or 31 December 2006.

17 Contingent liabilities

There were no contingent liabilities at 31 December 2007 or 31 December 2006.

18 Related party transactions

Kingerlee Holdings Limited owns 25.3% (2006 24.6%) of the company's shares and D H Kingerlee and J C Kingerlee are directors and shareholders of both the company and Kingerlee Holdings Limited. During 2007, the group made purchases from Kingerlee Holdings Limited or its subsidiaries, being repairs to properties of £272 (2006 £480) and a service charge in relation to services provided at Thomas House, Kidlington of £14,000 (2006 £14,000). The amount owed at 31 December 2007 was nil (2006 Nil). All transactions were undertaken on an arm's length basis.

19 Financial instruments and financial risk

Fair value and maturity of financial instruments

The group has no derivative financial instruments. Exposure to credit, liquidity and market risks arises in the normal course of the group's business. At 31 December 2007 the group had total borrowings of £1,927,000 and fair values were not materially different from book values.

Credit risk

The group's credit risk, i.e. the risk of financial loss due to a third party failing to discharge its obligation, primarily affects its trade receivables. The amount of trade receivables presented in the balance sheet is calculated after any allowances for doubtful receivables, estimated by the directors. However, no allowances were considered to be required as at 31 December 2007 (2006 Nil).

The group has no significant concentration of credit risk, with exposure spread over a number of tenants. The credit status of tenants is continuously monitored and particularly reviewed before properties are acquired, before properties are let and before new leases are granted.

19 Financial instruments and financial risk (continued)

Liquidity risk

The group's liquidity risk, i.e. the risk that it might encounter difficulty in meeting its obligations, applies to its trade payables and medium term borrowings. The group has not encountered any difficulty in paying its trade payables in good time and has met all of the obligations of its medium term borrowing. 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 at 31 December 2007 of group financial liabilities, which are at variable rates, is as follows:

	2007	2006
	£'000	£'000
In less than one year or on demand:		
Bank borrowings	**18**	246
In more than one year but less than two years:		
Bank borrowings	**37**	288
In more than two years but less than five years:		
Bank borrowings	**220**	1,002
In more than five years:		
Bank borrowings	**1,652**	4,395
Total	**1,927**	5,931

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2007, in respect of which all conditions precedent had been met, were as follows:

	2007	2006
	£'000	£'000
Expiring in one year or less	**400**	400
Expiring after two years	**4,069**	4,069
Total	**4,469**	4,469

The facilities included above are subject to review by the provider of the facilities on 30 April 2008.

Currency exchange risk

The group is not directly exposed to currency risk as it does not trade in foreign currencies. However, most of the group's equity investments are held in international companies and 15.3% (2006 19.1%) of the equity investment portfolio comprises overseas holdings. The inherent currency risk affecting those holdings is an indistinguishable factor in determining their market value and is taken into consideration as part of the overall assessment of investment risk.

Interest rate risk

The group finances its operations through retained profits, medium term borrowings and the use of overdraft facilities. 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.

When medium term borrowings or overdraft facilities are used variable rates of interest apply. The weighted average interest rate paid in 2007 was 6.5% (2006 5.4%). Had base rate averaged 1% higher than it did in 2007, then the group's net finance expenses would have been £32,000 higher. Similarly, had base rate averaged 1% lower than it did in 2007, then the group's net finance expenses would have been £32,000 lower.

20 Non-adjusting post balance sheet event

On 19 March 2008, at an extraordinary general meeting of the shareholders, a special resolution was approved for the group to convert to a Real Estate Investment Trust on 1 April 2008. As from that date the group will no longer pay corporation tax on the profits and gains from its qualifying property rental business provided relevant conditions are met. The group will be required to distribute to shareholders, by way of dividend, at least 90% of the tax exempt profits. In addition, the group will pay a conversion charge based on the asset value of the tax exempt business at 31 March 2008 and the deferred tax liability of £1,124,000 at 31 December 2007 will be released.

Largest property holdings of the group

	Valuation of holding at 31 December 2007 £'000
Office building in London, SW1	3,800
Distribution centre in Kidlington, Oxfordshire	2,900
Radio station and office building in north Oxford	2,900
Office building in central Bristol	2,700
Retail units in Staines	2,700
Distribution centre in Southampton	2,500
Retail unit in Leamington Spa	2,000
Licensed retail and restaurant property in Warrington	2,000
Retail units in Cirencester	1,775
Retail unit in Norwich	1,775
	25,050
Seventeen other commercial and residential properties	10,495
	35,545

The value of the above ten properties represents 70% (2006 67%) of the value of the property investment portfolio of the group at 31 December 2007.

Largest equity holdings of the group

	Valuation of holding at 31 December 2007 £'000
Rio Tinto	691
ANZ Banking Group	605
GlaxoSmithKline	446
Tesco	430
Vodafone	429
Bank of Nova Scotia	383
HSBC Holdings	370
Standard Chartered	369
Royal Bank of Scotland	341
Royal Dutch Shell	336
	4,400
Fifty seven other equity holdings	6,430
	10,830

The value of the above ten investments represents 41% (2006 36%) of the value of the equity investment portfolio of the group at 31 December 2007.

	2007	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Investment properties – at annual valuation	**35,545**	41,487	33,461	30,523	25,436
Equity investments – at market value	**10,830**	11,794	10,620	8,731	8,062
Total net assets	**41,713**	42,875	39,164	34,497	32,161
Net asset value per share in issue at end of each year	**807p**	830p	758p	668p	622p
Revenue (excluding gains/losses on disposals of assets)	**£'000**	£'000	£'000	£'000	£'000
Gross income from property	**2,126**	2,038	1,917	1,667	1,569
Dividend income	**406**	489	339	285	286
Profit available for distribution	**1,562**	1,500	1,366	1,211	1,140
Share capital					
Average number in issue (000's)	**5,167**	5,167	5,167	5,167	5,167
Basic (loss)/earnings per ordinary share	**(8.5p)**	84.8p	102.3p	56.5p	58.7p
Adjusted earnings per ordinary share	**30.2p**	29.0p	26.4p	23.4p	22.1p
Dividends paid per ordinary share	**14.25p**	13.70p	12.65p	11.70p	11.00p
All-Share Index	**3287**	3221	2847	2410	2207
FTSE 100 Share Index	**6457**	6221	5618	4814	4477
Highcroft year end share price	**717p**	732p	615p	505p	480p
Retail Price Index	**210.9**	202.7	194.1	189.9	183.5

The company's share price is quoted in the Financial Times and included in the "Real Estate" category (code HCFT). 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.

We have audited the parent company financial statements of Highcroft Investments PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the balance sheet, and notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Highcroft Investments PLC for the year ended 31 December 2007.

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 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 have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, 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. This other information comprises only the chairman's introduction, the corporate governance statement, report of the directors, the unaudited part of the directors' remuneration report 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 parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments 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 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.

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 2007 and of its profit for the year then ended;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford

1 April 2008

	Note		2007		2006
		£'000	**£'000**	£'000	£'000
Fixed assets					
Investments	5		**40,885**		44,805
Current assets					
Debtors	6	**3,269**		1,832	
Cash at bank		**243**		281	
		3,512		2,113	
Creditors – amounts falling due within one year	7	**149**		38	
Net current assets			**3,363**		2,075
Total assets less current liabilities			**44,248**		46,880
Capital and reserves					
Called up share capital	8		**1,292**		1,292
Reserves					
– Realised capital	9	**4,306**		3,410	
– Capital redemption		**95**		95	
– Investment revaluation	9	**35,489**		39,133	
– Profit and loss account	9	**3,066**		2,950	
			42,956		45,588
Shareholders' funds	11		**44,248**		46,880

These financial statements were approved by the Board of Directors on 1 April 2008.

J Hewitt

J C Kingerlee
Directors

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

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 company have remained unchanged from the previous year.

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 dealt with when paid as a change of equity in the revenue reserve. Final dividends proposed are not recognised as a liability.

Investments

Investments are included at the following valuations:

- shares in subsidiary undertaking – net assets as shown by its financial statements,
- equity 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.

2 Company profit for the year after tax

The company has not presented its own profit and loss account as permitted under section 230 of the Companies Act 1985. The profit after tax for the year was £839,000 (2006 £791,000). Information regarding directors' remuneration appears on pages 13 and 14 of the consolidated financial statements.

3 Auditor's fees

	2007 £'000	2006 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	**4**	6
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiary, pursuant to legislation	**14**	11
Tax services	**10**	11
Other services pursuant to legislation	**1**	4
	29	32

4 Dividends

In 2007, the following dividends have been paid by the company.

	2007 **£'000**	2006 £'000
2006 Final: 9.0p per ordinary share (2005 8.3p)	**465**	429
2007 Interim: 5.0p per ordinary share (2006 4.7p)	**258**	243
	723	672

On 1 April 2008, the directors declared an ordinary interim dividend of 9.25p per share (2006 9.0p) payable on 4 June 2008 to shareholders registered at 9 May 2008.

5 Equity investments

		Shares in subsidiary	Other investments	
	Total	undertaking	Listed	Unlisted
	£'000	£'000	£'000	£'000
Valuation at 1 January 2007	44,805	33,010	11,791	4
Additions at cost	1,162	–	1,162	–
Disposals	(2,402)	–	(2,402)	–
(Deficit)/surplus on revaluation	(2,680)	(2,955)	270	5
Valuation at 31 December 2007	**40,885**	**30,055**	**10,821**	**9**

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:

		Shares in subsidiary	Other investments	
	Total	undertaking	Listed	Unlisted
	£'000	£'000	£'000	£'000
Cost at 31 December 2007	**4,698**	**354**	**4,340**	**4**
Cost at 31 December 2006	4,976	354	4,618	4

At 31 December 2007, 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.

6 Debtors

	2007 **£'000**	2006 £'000
Owed by subsidiary undertaking	**3,248**	1,746
Taxation	**–**	17
Other receivables	**21**	69
	3,269	1,832

7 Creditors - amounts falling due within one year

	2007 £'000	2006 £'000
Other taxes and social security	**25**	12
Other payables	**124**	26
	149	38

8 Share capital

	2007 £'000	2006 £'000
Authorised 8,000,000 ordinary shares of 25p each	**2,000**	2,000
Allotted, called up and fully paid 5,167,240 (2006 5,167,240) ordinary shares of 25p each	**1,292**	1,292

9 Reserves

	— Non-distributable —		Distributable
	Revaluation £'000	Realised capital £'000	Retained earnings £'000
At 1 January 2007	39,133	3,410	2,950
Profit retained	–	–	839
Dividends paid	–	–	(723)
Revaluation surplus – equities	275	–	–
Revaluation deficit – Rodenhurst Estates Limited	(2,955)	–	–
Realised gains	–	21	–
Surplus attributable to assets sold in the year	(964)	964	–
Tax on surplus attributable to assets sold in the year	–	(89)	–
At 31 December 2007	**35,489**	**4,306**	**3,066**

10 Deferred taxation

Deferred taxation provided and unprovided for in the financial statements is set out below and is calculated using a tax rate of 28% (2006 30%). Unprovided deferred taxation would crystallise if equity investments were sold at their balance sheet value.

	Provided		Unprovided	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Unrealised capital gains	**–**	–	**7,647**	9,031

11 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Profit for the financial year	**860**	791
Dividends	**(723)**	(672)
	137	119
Other recognised gains and losses:		
(Deficit)/surplus on revaluation of assets	**(2,680)**	4,281
Tax on prior years' surplus now realised	**(89)**	(46)
Net (decrease)/increase in shareholders' funds	**(2,632)**	4,354
Shareholders' funds at 1 January 2007	**46,880**	42,526
Shareholders' funds at 31 December 2007	**44,248**	46,880

12 Capital commitments

There were no capital commitments at 31 December 2007 or at 31 December 2006.

13 Contingent liabilities

There were no contingent liabilities at 31 December 2007 or at 31 December 2006.

14 Related party transactions

Kingerlee Holdings Limited owns 25.3% (2006 24.6%) 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 2007, the company 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 (2006 £14,000). The amount owed at 31 December 2007 was nil (2006 Nil). All transactions were undertaken on an arm's length basis.

Under the provision of FRS8, transactions between Highcroft Investments PLC and Rodenhurst Estates Limited are exempt from these disclosure requirements as Rodenhurst is a wholly-owned subsidiary.

15 Non-adjusting post balance sheet event

On 19 March 2008, at an extraordinary general meeting of the shareholders, a special resolution was approved for the Highcroft group to convert to a Real Estate Investment Trust on 1 April 2008. As from that date the Highcroft group will no longer pay corporation tax on the profits and gains from its qualifying property rental business provided relevant conditions are met. The Highcroft group will be required to distribute to shareholders, by way of dividend, at least 90% of the tax exempt profits and will pay a conversion charge based on the asset value of the tax exempt business at 31 March 2008.

NOTICE IS HEREBY GIVEN that the eightieth Annual General Meeting of the company will be held at The Dog House Hotel, Frilford Heath, Oxon, OX13 6QJ on Wednesday, 21 May 2008 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 2007.

2 To approve a final dividend of 9.25p per share on the ordinary shares of the company for the year ended 31 December 2007 to be paid on 4 June 2008 to shareholders registered on 9 May 2008.

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

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

6 To re-appoint Grant Thornton UK LLP as auditor to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the company and to authorise the directors to fix the remuneration of the auditor for the ensuing year.

By Order of the Board

D Bowman
Company Secretary

Registered Office
Thomas House
Langford Locks
Kidlington
Oxon
OX5 1HR

1 April 2008

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 be admitted only by prior arrangement.

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

d The register of interests of the directors and their families in the share capital of the company, together with directors' service contracts and the terms and conditions of appointment of the company's non-executive directors are available for inspection, by appointment, during normal business hours at the Registered Office. They will also be available for inspection at the place of the Annual General Meeting from 11.45 am on 21 May 2008 until the conclusion of the Annual General Meeting.

e Biographical details for Jonathan Kingerlee and Richard Stansfield are on pages 10 and 11.

f To be valid the proxy card must be deposited with the company's Registrars at Capita IRG PLC, Proxy Processing Centre, Bicester, OX26 4LD not less than 48 hours before the time fixed for the meeting.

HIGHCROFT INVESTMENTS PLC

Thomas House, Langford Locks
Kidlington, Oxon OX5 1HR